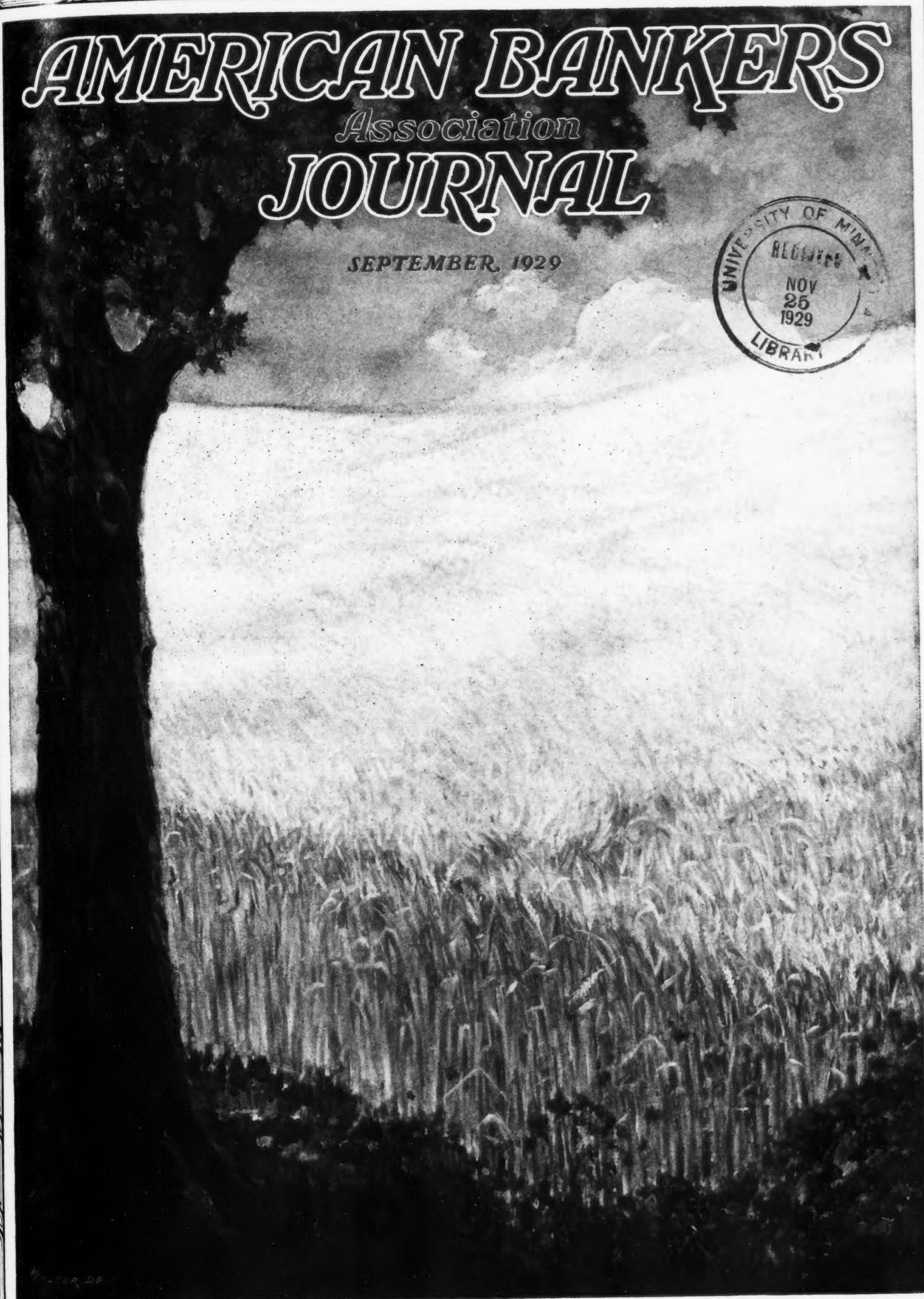
AMERICAN BANKERS Association JOURNAL

SEPTEMBER, 1929



New Wealth

Cover Story on Page V

Published in Two Sections—Section One

New Wealth

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

INTANGIBLES are coming more and more to be the measure of wealth of mankind as an intricate and complex civilization spreads over the world.

Once a man's actual possessions were the concrete evidences of his wealth. His flocks and herds, and fertile fields with their ripening crops proclaimed his standing alike to both tribesman and stranger. The pasture and the granary were the storehouses of treasure.

Nowadays wealth is conceived of as holdings of stocks and bonds, as represented by a substantial bank account. A man's credit rating determines his financial standing in the community.

Once a man beheld his increase in wealth in the making. He reaped and he sheared. The increment was the product of his husbandry, accumulating under the touch of his hand.

Dividends register the growth of wealth nowadays. Figures represent the turnover of capital, the output of factories or the return upon loans. Paper profits, the unrealized fruits of investment or speculatiion, bulk large in the modern scheme of things.

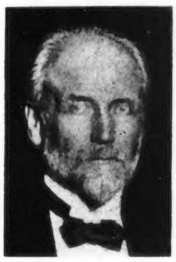
Few business men see the wealth that is the result of their energy and enterprise. They see and handle the evidence of wealth. Usually they think in terms of the evidence of wealth, a necessity dictated by the methods of commerce which have replaced the early custom of barter and exchange.

No one would go back to that ancient custom. It was sufficient to its day. Now high-geared business activity demands intangibles to facilitate its progress, and the greatest of these is credit.

Nevertheless there is often a tendency to forget the background of these intangibles in the struggle to amass them. They frequently overshadow one source of all new wealth which has remained unchanged through the ages. This one source of new wealth is the gift of the land, the dividend of the harvest, personified in the field of waving grain in the illustration by Mr. De Maris.

This Month's Journal *and* Your Own Bank

BANKING in this country is said to be standing at the threshold of new developments more far-reaching perhaps than those that have made history in the last few years. The future of banking and banking practices has become the insistent question of the day. President Hazlewood, of the American Bankers Association, in this issue of the JOURNAL holds out to the bankers of the nation an opportunity to hear the answer evolved in the deliberations of the Annual Convention of the Association at San Francisco. His summary of the wide spheres of thought and action to be explored discloses a range of discussion and deliberation that will leave no important subject untouched.



NO proposal in the field of finance in recent years has so intrigued the interest of the world as the so-called super-bank, the Bank for International Settlements which is to be created under the Young plan for the settlement of German reparations. One appraisal of the suggested institution is given in this issue of the JOURNAL by Professor Gustav Cassel, of Stockholm, Sweden, who is equally well known in this country and in Europe as a financial economist. His view of the super-bank may be considered rather critical but it must be remembered that he is concerned more with possible policies than contemplated functions.

"IRREGULAR Loans, Commonly Called Float," is the way W. R. Morehouse describes his study of one of the most pressing of bank administration problems. Just about a year ago through the columns of the JOURNAL this author amazed the banking world by his analysis of the losses sustained through unscientific methods of figuring interest on savings accounts. His inquiry into the leakage of profits through float is equally astonishing in the conditions discovered.

How the float situation may be remedied is, of course, the question in the mind of the banker, and the article unhesitatingly answers the question. The progressive spirit in modern banking has never been better demonstrated than in the reforms made during the past year in the adoption of efficient principles for figuring interest on savings accounts. It may well be that one of the high spots in banking progress during the coming year will be the results obtained in the elimination of losses on float.

REPEATED reductions in Federal taxes have created an impression that the trend of taxation is downward. Casual discussions of the subject are usually from that point of view. Thornton Cooke, president of the Columbia National Bank, of Kansas City, Mo., holds an altogether opposite opinion in an article which challenges attention. He advances a theory, rather difficult to combat, that taxation is on the increase and must continue

to be so under what might be called the present standard of living of the cities and communities of the United States.

Therefore he proposes that those who carry the burden of taxation must see to it that future levies are assessed under a system which recognizes the difference between ancient and modern attributes of wealth and breaks away from what have become habits of taxation.

AN increase in the rediscount rate of the Federal Reserve Bank of New York as a step in the direction of providing more credit for the seasonal needs of business hardly seems a logical step. Yet W. M. Kiplinger in this issue explains a new reserve system technique, that was responsible for the totally unexpected advance in the New York rate early in August, which pivots upon an apparent contradiction in the steps taken. His article brushes aside much of the mystery that usually envelops reserve system rate changes and permits of a clear insight into what is now proposed. Incidentally, this author in an earlier issue of the Journal forecast that the next upward movement of rediscount rates would be by a full 1 per cent instead of by one-half of one per cent, a prediction which was borne out in August.

OTHER nations frankly envy the United States its wealth of statistical material. To this factual knowledge that has made possible accurate forecasting of basic conditions to be expected they attribute much of the source of American prosperity. Yet the average American banker or business man finds himself lost when confronted with the maze of figures made available by the reports of the government and other agencies.

John H. Libby, a Washington economist who has studied both in the United States and Europe, describes new methods of long range forecasting that are being perfected to provide for the smaller business interests the same statistical advantages that are now provided for entire industries on a national scale.

THE fertile fields of the Yazoo Valley are Middle West farms washed down by the Mississippi River. That hardly sounds like a serious statement of fact, yet in this issue Dan Scoates, an agricultural engineer and in charge of the agricultural and engineering department of the Texas Agricultural and Mechanical College, shows how erosion is eating

away the productive soil of vast areas of farm lands.

All too frequently this washing away of the soil means the disappearance of the security for a bank loan. Consequently soil erosion is a banking as well as an agricultural problem, which fortunately can be combated in a practical fashion.

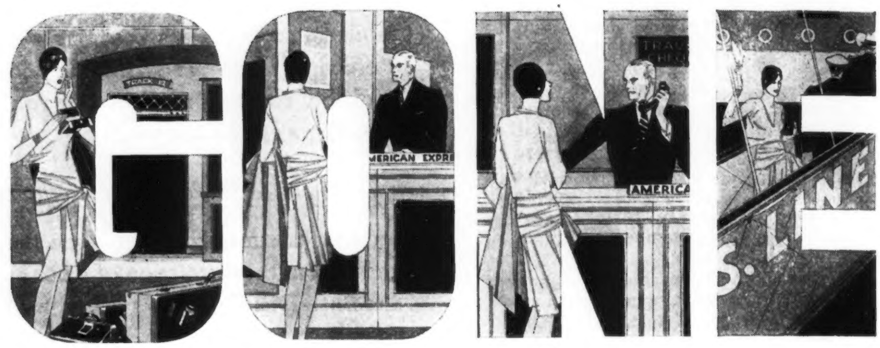
DESPITE the passage of farm relief legislation by Congress and the creation of new Federal machinery for aiding the farmer no one believes for a moment that all the ills that beset agriculture have been swept away. Most people realize that the average farmer must rely upon his own community for an intelligent helping hand.

How practical farm aid is being provided for farmers in one section of the country is described in this issue by C. W. Wilkins, who has been a country banker all his life. His article hits at one of the roots of the agricultural question and raises the seemingly unanswerable question of why a farmer who can buy all sorts of manufactured goods on the instalment plan should not be able to buy his livestock—cattle, sheep and pigs—in the same way and pay as they multiply.

AMERICAN industry has gone adventuring into foreign lands. The enthusiasm with which American manufacturing interests are establishing branch factories abroad has produced a movement which has assumed the proportions of an economic migration. "Emigrants of American Industry" in this issue, by George E. Anderson explains the reasons for this movement and where it fits into the general economic picture. He also dispels some of the fears that have been felt lest this trend react unfavorably upon domestic business conditions.

HIGH call money rates and a large volume of loans to brokers are now familiar concomitants. Expanding brokers' loans and contracting bank deposits constitute a new phenomena in this period of nation-wide trading in securities. It is moreover a phenomena that is perhaps of even greater concern to the banks than the various credit restriction policies that have been employed from time to time by the Federal Reserve System. "Brokers' Loans and Bank Deposits," by Henry E. Sargent, in this issue discloses the relation between the level of deposits and the volume of call loans by non-banking interests. As yet the situation is without serious consequences, but the article shows where the new trend may lead.

My money is



–my trip is ruined

Thus exclaimed a young lady who recently arrived in New York from Pittsburgh. She was bound for Europe, her steamer was soon to sail but she had unfortunately left her Travelers Cheques at home.

A stranger in a strange city it seemed that her trip *would* be ruined—until she went to the American Express—and then things began to happen. She was advised to telephone her home in Pittsburgh and arrange for some one to take her cheques to the local American Express office. The Resident Manager there, realizing the urgency of the matter, telephoned to the American Express headquarters at 65 Broadway, New York, that he had received the cheques. The young lady established the necessary identification and new cheques were issued to her immediately. She caught her steamer, thankful to the organization back of American Express Travelers Cheques and grateful to the bank which recommended the sky-blue travel currency.

Bankers know the story of American Express refund service but this particular transaction, though unusual, happily illustrates one of the unique service advantages of American Express Travelers Cheques.

There are more than 26,000 Express offices throughout the United States and Canada forming a network of near-at-hand service stations always ready to assist your clients who carry American Express Travelers Cheques.

for safety and spendability

AMERICAN EXPRESS

Travelers cheques

Steamship tickets, hotel reservations, itineraries, cruises and tours planned and booked to any part of the world by the American Express Travel Department

AMERICAN BANKERS ASSOCIATION JOURNAL

The Prospect of the Super-Bank

By GUSTAV CASSEL

Dangers Seen in Creation of International Bank Under Young Plan. Fundamental Conditions May Be Obscured in the Public Mind. No One Knows What Influence Will Control Institution. Scheme Considered Unnecessary to the Economy of the World.

THE proposal of the Young Committee to create a "Bank for International Settlements" has its ultimate roots in several different lines of thought which have been prominent in the post-war discussion of international finance. If we want to form a judgment of the importance of the new project we should do well to examine first these underlying ideas; find out what is their true value and what influence they have had on the formation of the Young plan for an international bank.

First, then, there is the natural endeavor as far as possible to free the German reparations payments from their political character and create a machinery for their fulfillment as ordinary commercial transactions. The Dawes plan took important steps in that direction, but it was obviously necessary to go further and hand over the whole machinery of reparation payments to an institution that could become a natural link in the world's normal financial organization. That the name and character of an international bank should be given to this institution was hardly equally necessary but may be justified by the great amount of banking transactions that such an institution would necessarily have to carry out.

The fundamental question how far the reparation claims may be freed of their political character must always ultimately depend on their being reduced to figures that will make their payment commercially possible. If this is the case the problem of finding the suitable machinery for carrying through the actual payments is a technical question not involving any serious difficulties.

A New Cog

THE eminent Swedish economist whose views are presented here considers the Bank for International Settlements proposed by the Young Plan rather as a new cog in the machinery of world finance than as a final means for the settlement of international problems of money and credit. He insists that the initiative which has made possible the stabilized conditions that have replaced post-war confusion always must keep abreast of each world movement to guarantee success.

Mobilization Impossible

ON the other hand, if reparation claims go beyond real economic possibilities, no technical organization, however skillfully thought out, can secure an undisturbed fulfillment of the payments. The value of the proposed international bank as an instrument for solving the reparations question has to be judged in the light of these indisputable truths.

The second line of thought which has led up to the present proposal is the idea that reparation claims ought to be "commercialized" and "mobilized," that is to say, transformed into ordinary commercial debts to private investors spread over the whole world. For every one with any real knowledge of the world's financial markets, it was clear enough from the beginning that such a mobilization of the immense reparation annuities was absolutely impossible. Even under the most favorable circumstances an international loan on the security of German reparations could not be arranged, for a sum above one single ordinary Dawes plan annuity.

Each Must Act on Its Own

BUT insufficiency of available funds is not the single obstacle. The chief creditor countries, France and England, are incapable of receiving any money raised abroad and would have to invest such money abroad. Thus, from the point of view of international payments the whole transaction would be largely unnecessary and, in addition, probably very expensive.

A mobilization of reparation claims may, however, be carried through as an interior business of a creditor country. It may sell German obligations to its

(Continued on page 262)

The Case for Character Loans

By HOWARD HAINES
Vice-President, The First State Bank, Kansas City, Kansas

Small Loan Departments Prove Success Both in United States and Europe. Orderly Liquidation Provided by Plan Which Also Encourages Savings Habit. Capable Personnel Required to Get Best Results. General Economic Benefits Seen in the System.

MORE than 50 per cent of the banks of this country are bothered with small loans—accommodations they label them—which sap profits to an alarming extent.

The Clearinghouse Section of the American Bankers Association in their booklet number two on bank management, a most interesting and valuable study, says:

> "In one Middle Western bank, one-half of the loan lines absorb one per cent of the dollars. To put it more bluntly, the loaning officers and employees are giving half of their time in loaning out one per cent of the bank's funds."

These percentages, of course, are the exception rather than the rule, but without question the small loan dilemma is now, and has been for some years, confronting the average banker.

Profits Were Negligible

A ST. LOUIS cashier recently conferred with me in regard to the proper installation of an individual loan department. He told me he had more than 2,000 borrowers, good customers, whose loans average only $75 each. He admitted the profits were negligible. When he deducted the final cost of collection and liquidation there could be no profit and probably some loss. The solution for his problem was offered by the recent development of a special department for the making of such loans.

Of the 105 banks in the United States and Europe who have opened character loan departments for the purpose of added income and constant liquidation of formerly excessive small loans, we find almost a uniform admission of successful operation. The departments are referred to as character, industrial or personal loan plans. Any of these classifications refer to loans of from $25 to $2,000 or more, depending on the borrower's ability to repay in equal monthly installments—a class of loans which draws some additional customers to banks who are now advertising the new development.

In order to illustrate the advantages and perils of the small loan department as clearly as possible, let us imagine that we have actually installed the system and are making our first loans.

The first general advantage we are going to notice is that we may begin an imme-

Worthless Diamonds

diate transfer of many of our small loans to this special department. Here is Mrs. Glenn coming in now. She has been borrowing $50 from us for sixty days and renewing the note regularly for the last two years. It's an easy matter. We say:

"Good morning, Mrs. Glenn! How are you today?"

"Oh, all right, I suppose." This is her usual tone. "It seems like John and I never have any luck—if it isn't one thing it's two—I guess we will have to renew that note again, Mr. Stone, if it's all right."

Without Friction

YOU knew this was coming, so you are all set.

"Certainly, Mrs. Glenn; we've just installed our new personal loan department and from now on we will handle all our small loans under that plan. We believe you will find it much more convenient. Let me introduce you to Mr. Perkins, who is going to handle this for us."

The outcome is that without friction Mrs. Glenn's loan is renewed with a deducted discount considerably larger than has been received in the past and her loan is made payable monthly. The bank has introduced that highly important factor into its small loan transactions — liquidity. Also it has centralized the many details connected with the small loans in one department and thereby relieved the other officers of this work.

Not a Pawn-Shop

IN regard to all new borrowers, a bank, of course, is going to require that they fill out fully its application blank, which will be comprehensive enough to give an idea of their past credit record. While speaking of applications we may mention that there are going to be from 25 per cent to 50 per cent of the applications on which loans will not be made, although a New York bank reports that they approved

(*Continued on page* 270)

Soil Conservation and the Banker

By DAN SCOATES
Head, Agricultural Engineering Department, Agricultural Mechanical College of Texas

Soil Erosion is Pictured as Wastage of Valuable Collateral. Water Sometimes Washes Away Mortgages as Well as Farms and Banks Are Left with Worthless Lands. Problem a National One Not Limited to the South. Terracing Gives Best Protection.

ONE day during the war I was talking to George R. James down in Mississippi and he made this statement:

"You know, Scoates, if I had my way I would pass a law, making it as strong as I know how, to make these farmers terrace their lands and prevent the soil from washing down to the sea."

I agreed that it would be a fine thing to do. But we could not do it or we did not do it because this is a free country and if a man wanted to let his farm wash down on the land of some one else, or even down to the sea and stop up the rivers and streams on the way down, that is his own business.

We are slowly waking up to the fact that maybe this is not only each man's little problem; perhaps we should be concerned.

Washed to the Ocean

IT has always been a source of wonder to me that the banker has not seen the light sooner than he has; particularly when he held a mortgage on a farm and that farm needed terracing or some other method of soil conservation. The banker sat idly by while the farmer allowed his farm to be washed to the ocean. No effort was made to require the farmer to prevent soil wastage to protect this collateral. Many a banker has awakened too late, only to find that he does not have the farm he mortgaged. All he has is the place where the farm once was.

I believe that the Federal Farm Loan Bank, Houston, Texas, was the first bank really to see the light. A clause was put in its deed of trust which required the borrower to terrace his land, if necessary, to prevent soil erosion; otherwise the loan was called. Take care of the collateral or pay the money—fair enough. The following is the clause to which I refer:

"It is agreed that during the term of this loan the land herein described shall be at all times fully protected from deterioration by washing or lack of drainage, by the construction and maintenance of reasonable, proper and adequate terracing and drainage, and, if at any time during the period of this loan, such terracing and drainage is not constructed and maintained as will fully protect said land from deterioration, of which fact THE FEDERAL LAND BANK OF HOUSTON is to be the sole judge, the said Bank may, at its option, declare the entire indebtedness secured hereby immediately due and payable."

Some people have the idea that this soil erosion problem is all a trouble that is peculiar to the southern part of the United States. That is all wrong.

Via the Mississippi

THE fertile soils of the Yazoo Valley in Mississippi are farms which have moved down via the Mississippi River from Iowa, Illinois and other North Central States says the author of this article in emphasis of the broad scope of the problem of soil erosion. He offers a concrete illustration of what banks can do to insure adequate protection for the soil of farms upon which they lend money which is a contribution not only to banking but to the ever pressing question of practical flood control.

Farms Which Have Moved

A LARGE area of the United States is undergoing soil erosion. The trouble with it is, that as a general rule it is not as noticeable in other places as it is in the South and hence they do not think this is a problem belonging to other parts of the country. They wonder why they have declining yields of crops each year and blame the weather and other things which cannot be controlled instead of the real difficulty. The fertile soils of the Yazoo Valley in Mississippi are farms which have moved down via the Mississippi River from Iowa, Illinois and other North Central States.

The magnitude of our soil losses can best be shown by the large amount of silt carried by our rivers. The Mississippi River transports annually into the Gulf of Mexico over 406,000,000 tons of silt. The Potomac River empties annually millions of tons of silt into the Atlantic. Blaney and Fortier are authorities for the statement that in the Colorado River, which runs through Colorado and down into California, and on which the Boulder Dam is to be placed, and which has a drainage basin as large as the state of Texas, is carrying away annually over 253,000,000 tons of silt.

Checking Up the Losses

GETTING these soil losses down to an acre basis where perhaps one can visualize them better, let us see what has been done to check up on the soil losses of small acreages.

The Texas Agricultural Experiment Station has been doing some work at its branch experiment station located at Spur, Texas, to determine the amount of soil erosion as well as the losses in crop production due to loss of runoff water. The annual rainfall in this territory is approximately twenty-two inches per year. It is therefore a place where moisture is one of the large limiting factors in crop production. The first year they initiated their experimental work, it was discovered that they were losing soil at the rate of forty-one tons per acre on a piece of naked land which had a fall of two feet in 100 feet. This was relatively flat land. The rainfall that washed this soil away was twenty-seven and one-half inches.

The Spur experiment is not alone in showing results of such a large amount of soil washing. The University of Missouri has been doing some of the same kind of work and on an uncultivated plot, kept clear of weeds, they lost on the average for six years, 34.6 tons per acre. The slope of this land was 3.6 feet per hundred feet and their mean annual rainfall was a little more than thirty-five inches.

This type of soil washing is sheet erosion and planes off the surface of the land. It goes on in such a way as not to be noticeable.

Crops Prevent Erosion

THE average person looking over this land would not appreciate the amount of soil washing which takes place. However, if one observes the streams which drain these lands, it will be noticed that considerable silt is being carried. This silt must come from some place.

The problem which confronts us is how to stop this soil erosion. There are a number of ways to assist materially in reducing it. The amount of humus in the soil has a direct bearing on the problem because humus absorbs water readily and does, therefore, build up the water-

Water flowing in a Mangum terrace

absorbing capacity of the soil. However, humus in our soils is usually in the upper or surface section and this is the first to wash away. When this is gone, the soil is more readily washed.

Crops have a very decided influence on the prevention of soil erosion. This has been proved over and over again by experiments. It was found at Spur, as well as at the University of Missouri, that sod land allows very little washing. It also holds the water.

The Proper Terrace

THE best known way of preventing erosion is by the use of terraces. There are a number of different kinds of terraces. There is the bench terrace which is a series of steps and is employed largely for the landscaping of homes and on farms of very steep slopes in the Orient. It is used to some extent in the southeastern part of the United States. It is not a desirable terrace for agricultural purposes because it will not allow the use of modern farm machinery, a very necessary adjunct to any farm in this day when the man in agriculture must accomplish the most possible in the shortest time.

The ridge terrace is best if properly constructed. The narrow or "razorback" type of ridge terrace, which is eighteen inches to two feet high and four or five feet wide, is not a desirable one. It is a drawback to modern farm machinery, grows up in weeds, and is easily broken, which results in gullying wherever the break takes place.

The proper terrace to construct is the broad ridge terrace known as the Mangum terrace. This terrace is from fifteen to twenty-four inches high and from twenty to thirty feet wide. Crops are planted on the terrace ridge the same as they are in the rest of the field. There is no waste space.

A Two-Fold Mission

THE mission of this terrace is twofold; first, to prevent the water from flowing so fast across the field that it will wash the soil away. The carrying capacity of water varies directly with its velocity. The idea then is to slow up the water which runs off and not allow it to erode the soil.

The second mission of this terrace is to hold the water on the land as long as practicable in order that the soil may absorb as much of the water as possible. This mission of the terrace is not generally appreciated at the present time. It, however, is becoming better understood, particularly as results of research work along this line become available. As an indication of this, it was discovered at Spur that on land which had no terraces or other obstructions to hold the water, they secured a yield of 646 pounds of seed cotton in 1927 and 156 pounds of seed cotton per acre in 1928; while on land which was dyked and no water allowed to run off, the yield was 753 pounds in 1927 and 586 pounds in 1928. Of course this was in a territory where water is a larger limiting factor than in some other sections of the country but farmers are reporting similar results from terraced and unterraced lands in other sections of the country when they have taken the time and trouble to investigate the matter.

Many places have droughts or periods deficient in moisture during the growing season when crop yield would be materially increased if they had stored up in the soil sufficient moisture to carry them through that period.

Laid Off With a Level

THE construction of the terrace is relatively a simple matter and can be done with a plow and slip scraper or it can be done more quickly with a small road grader or a regular terracing machine. These terraces are laid off with a level and it is not a very difficult job to do.

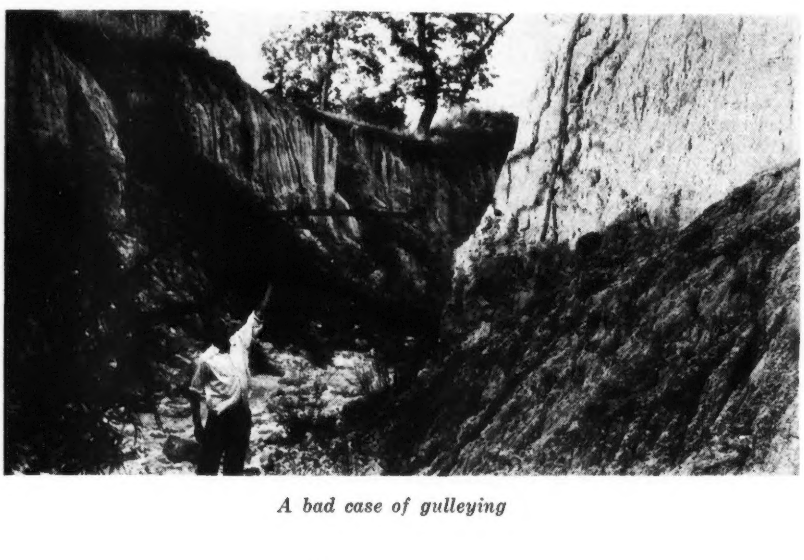
Recent years have seen an ever increasing building of terraces on the farms; particularly is this true of the South. There seems to be a realization of the need for such work in this section of the country and the agricultural agents have been pushing it strenuously.

As has been mentioned, the Houston Federal Farm Loan Bank took an interest in this work and appointed A. K. Short as conservation and terracing agent. Mr. Short gives the following as the plan of his work:

"Briefly, our plan to put over a constructive conservation program is: In the deed of trust, signed by the borrower, it plainly prescribes that he will terrace and keep in repair all terraces, on rolling farm land. Through training schools conducted by the farm engineer of the A. & M. College Extension Service, and the county agents, we expect to train men in each county to become qualified to run farm levels and construct terraces. Then by cooperating with the farmer, and all agencies interested we expect to encourage the terracing of all rolling farm lands and insist that the borrowers from this bank terrace such lands."

The Extension Farm Engineer together with the county agents and Mr. Short, have held a large number of meetings in various parts of the state.

(*Continued on page* 264)



A bad case of gulleying

Letters to Branch Managers

Problems of Fifteen Years Ago Show that Although Externals Have Changed, the Basis of Banking Remains the Same. What to Do to Keep Borrowing Customers Out of Bad Habits. The Need for Nerve in Banking. Some Irritations in Lending on Wheat.

THE quickened pulse of the business world in the post-war years and the rapid-fire changes which have become the order of the day in both business and banking have tended to obscure the fact that while externals have altered, fundamentals are the same. Good business methods and sound banking principles are no different from what they were ten or fifteen years ago.

In this selection of Mr. Powell's letters the problems of the anxious years at the outset of the World War stand out in marked similarity to the conditions which the banker of the present must face, particularly in the country districts. The letters discuss ways and means of banking under the difficulties of a troubled era, but they are no makeshift methods. They are the exposition of the art of banking.

The series presented here covers practically three years. Hence they can only give the highlights of a continuing policy which clearly indicates itself.

"Keep Your Nerve"

"DECEMBER 8, 1914.—It has been a pleasure to the directors to see the number of property statements that some of the branches have already obtained from their customers this early in the season. The directors like to check over the standing of the different customers, as you can readily see that this is about the only check they have on the business, not knowing any of the customers personally. It would seem to me that it would be a very simple matter in renewing a line with a customer, which you are practically certain will have to be carried for some time, to get the property statement at that time. Later on, it may be more difficult to get them in. I think it is largely a matter of education and should be a point to be worked towards by all branches. I hardly see how a manager can properly judge his business and customers without taking these statements and seeing whether a man is making progress or not.

"JANUARY 21, 1915.—I think from now on you will have to keep your nerve up to avoid taking on paper which will overload us before the season is over. Some customers are entitled to accommodation and should be looked after. Some have already had more accommodation than they are entitled to.

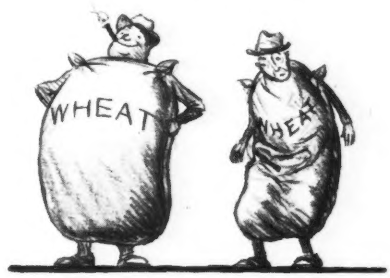
"It will be up to you to do the culling largely, as you are on the ground, but remember that before another fall money is not going to be plentiful. We had large reserves at the end of the year and are still stronger than ever before, but we have sacrificed profits in order to be in this position and thus be sure to come through without any difficulty during the year.

They Never Subtract

"SEPTEMBER 10, 1915.—Applications are already beginning to come in from farmers for money with which to pay their floating debts and enable them to hold their wheat. While some of the farmers are in a position to hold their wheat and are entitled to credit to a certain extent to assist them in this line, still most of the farmers should sell at least enough to pay up the bank and their running expenses, rather than speculate on still more borrowed money. The banks have furnished money to most of these men with which to produce this crop, and now that it is produced, we are certainly entitled to

payment out of what we have assisted in producing.

"Our experience in advancing money to the ordinary man for the purpose of holding his grain has not been very satisfactory where the man borrowing has quite a number of other obligations outside the bank. The borrower is generally pressed from all sides for payment, and to relieve the pressure he hauls out a load now and then to pay someone, at least part of what he owes him, or to buy something which he quite badly needs. He never thinks to subtract this amount from the total number of bushels put into the bin, and in the spring he usually comes to the bank with the story that he did not have as much wheat as he thought, and, although he is sorry, still he can see nothing except for the



bank to carry him until fall, and on top of this he will want still more credit with which to produce another crop.

"The bank in these cases is largely in the position of a man loaning money on collateral and then passing the collateral back to the borrower and telling him when he collects it to bring in the money and pay up his note. Some men would do this in a satisfactory and conscientious manner, but it is never a good practice, as people will not always deal in a businesslike manner.

Pay Up or Square Up

"NOVEMBER 13, 1916.—I have just been comparing our consolidated bank statement for the end of October with the one for the end of September. There are two points which stand out in a marked way on the later statement: one, the larger increase in deposits; the other, the slight decrease in bills receivable. There seems to be a class in nearly every branch that has a lot of surplus money and is depositing it, and yet the borrowing class does not seem to be paying the bank any money, otherwise our bills receivable would be running down. There was a reduction of only about $60,000 in a month on a million and a quarter of bills receivable. This seems peculiar.

"We are very long on cash and are taking on outside quick investments to take care of our surplus, but this should not blind our eyes to the correct principles of banking, that is, that satisfactory settlement should be made each year by all borrowing customers. If we do not

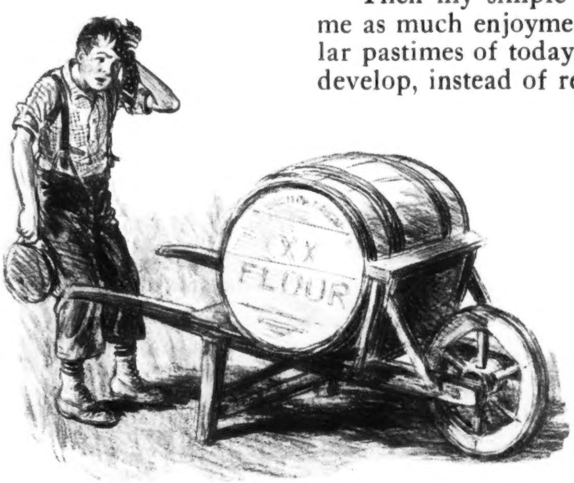
(Continued on page 267)

Received Payment

"I LOOK back," said an old banker, "to the first years I spent as an employee in a business house and later in a bank.

"I used to think of some of my early employers with bitterness and with contempt for I felt that they had unduly profited by my labor.

"When I 'hired out' to a merchant in our small city I was the rawest of raw material but I worked willingly. Though my employer used me like a horse I never shied at a piece of paper and ran away—as horses do. I might have been paid more, yet perhaps I received what was then the prevailing rate. But as the years rolled by and I assumed more responsibility and more work and eventually was carrying as much of the burden as was the proprietor himself, even then I was only receiving what is in these days about the salary of an office boy in a big city.



"Transferring to banking was like beginning all over again and there were long lean years before light began to break.

"Time and reflection now have revealed to me the value of my lean years. They trained me down, developed capacity for work, the habit of caution, the ability to accept responsibility.

"In those early times the vehicles that I knew most about were delivery wagons and wheelbarrows, but now as I read the papers day-by-day and observe what is going on I thank God for the wheelbarrow, humble, lowly and contemptible as any young man may regard it.

"Then my simple pleasures gave me as much enjoyment as the popular pastimes of today, and helped to develop, instead of retarding me.

"Even if I could I would not exchange that early life experience for anything that is obtainable today by a young man, for while none of us had all that we wanted, everyone had all that he needed.

"It is as if the years had held much in trust for me; time has paid me all.

"AND so looking back I now am glad to write against the memory of my old employers; against the hard long years; against the poor community that I loved, and love still:—

"Received payment in full."

James E Clark

Emigrants of American Industry

By GEORGE E. ANDERSON

Fallacies Seen in Widespread Alarm Both Here and Abroad at New Policy of American Manufacturers in Establishing Large Branch Factories in Foreign Countries. Neither this Country Nor Other Nations Expected to Feel Any Uneconomic Results.

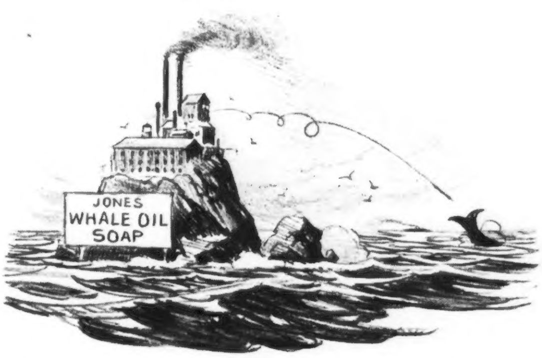
THE vast increase in the investment of American capital in industrial undertakings in other countries, which has been an outstanding feature of the international movement of capital in the past two or three years, is causing spasms of alarm on both sides of the Atlantic. Several months ago a British electrical concern developed something like an international investment scandal by an attempt to limit its ownership and control to British stockholders. The attempt raised such an international outcry that ultimately it failed, but it was so symptomatic of a fear shown by British, French, German and other European industrialists of American control that its significance is not to be overlooked.

On this side of the Atlantic the American Federation of Labor has viewed with alarm what it terms an increasing movement of American manufacturers to establish factories in other countries for the purpose of manufacturing goods to be imported into the United States in competition with goods of American manufacture and often as substitutes for the American products. As a matter of fact there is very little occasion for worry on the part of either side of the international frontiers.

It is perfectly true that American capital has come to secure control of a considerable number of foreign manufacturing concerns, public utilities, foreign mines and trading companies, but it likewise is true that foreign capital for years has had control of many American enterprises of the same sort and usually such control has been to the advantage of all concerned. On the other hand, the number of branch factories established abroad for the purpose of manufacturing goods for shipment to the United States is very small, and in every case such concerns rest upon exceptional conditions.

Speaks for Itself

AS to the extent of and the acceleration in American investments in industrial enterprises abroad there is no question. Few definite totals in estimating the extent of the movement are known, but a great many items going to make up such totals are well known, and the effect of the movement speaks for itself. Twenty years ago it was estimated that $350,000,000 of American capital was invested in industrial plants in other countries. It is now estimated that $2,500,000,000 of American capital is invested abroad in some way or degree to participate in industrial and similar undertakings, excluding foreign private loans. Of this, $500,000,000 is estimated



to be invested in manufacturing plants in Europe wholly owned or controlled by American capital. In Canada, it is estimated that American investments in industrial concerns include $147,000,000 in the metal industries; $409,000,000 in other miscellaneous industries; $444,000,000 in the paper pulp industry, and $153,000,000 in mining. There are considerable industrial investments in Central and South America and in the Far East.

Faced With Difficulties

ALL these figures are estimates, mostly by the Finance and Investment Division of the Department of Commerce, based upon known items. It is difficult not only to ascertain the totals of such investments, but also difficult to exactly classify them. Whether meat packing plants in the Argentine, for example, are to be included as industrial concerns is a question. Besides these direct investments it is estimated that $1,500,000,000 of American capital is invested in corporate securities abroad which includes $300,000,000 in manufacturing industries, $350,000,000 in public utilities, $125,000,000 in railways, $100,000,000 in steamship lines, and so on. The net increase in such direct American investments abroad in 1928 is estimated at $328,000,000. The increase in France alone for the first six months of the current year is placed at about $50,000,000—a significant gain.

In actual manufacturing the list is a long one, embracing in fact nearly all the principal lines of American industrial products. The development of American automobile factories abroad has been the most striking feature of the movement and has been especially accelerated in the past two or three years. The establishment of Ford factories in Great Britain, Germany, France and other northern European countries has been followed by the General Motors Company establishing plants or buying local concerns—the purchase of the Opel factory in Germany, the reported purchase of Citroen in France—all such transactions indicate the trend.

But the automobile industry is only one industry, while similar expansion has been going on in almost all other lines—the Singer Sewing Machine Company, the Worthington Pump and Machinery Company, the International Harvester Company, the Goodyear Rubber Company, the Western Electric Company, the General Electric Company, the Westinghouse interests and so on are but a part. The movement ranges from the largest machinery to shaving soap, tooth brushes and chewing gum. Even important French dress-making establishments have fallen into American control. It is a general movement because it is founded upon economic principles.

The prime consideration in the establishment of American factories abroad is to secure or hold a trade which cannot be secured or held, at least to advantage, in any other way. Normally all American manufacturers would prefer to do their manufacturing in the United States, where their plants and organizations are already established and where superintendence, control and management can best be exercised. But so soon as American manufacturers enter a foreign field they are at once faced with difficulties.

Even Climate Plays a Part

THERE is, first of all, foreign tariffs to be overcome, and few foreign tariffs are low enough to be of small moment. There are also the handicaps of ocean freights, foreign credits, the expense of foreign agencies, national pride and prejudice in favor of domestic prod-

ucts to be overcome. In some lines of manufacture it is found that other countries have special advantages in the way of cheap raw materials, while in other lines even climate plays an important part. The result is that when the limit of expansion of their exports from the United States is reached in the face of such difficulties they commence to avoid the difficulties by exporting parts instead of finished machinery or partly manufactured products instead of the finished products, usually by reason of the fact that tariff rates on such partly manufactured goods are lower than the rates on the finished products. The next step is the manufacture of the entire product abroad.

A second consideration in the establishment of such American factories abroad lies in the dependence of some American industries upon foreign raw materials or semi-manufactured products—chemicals, intermediates, dyes and all sorts of products required by American manufacturers who find it advantageous to establish their own factories to insure a stable supply of dependable products at as low a price as possible. All such products would be manufactured abroad in any event; the only question is as to whether their ownership is American or foreign.

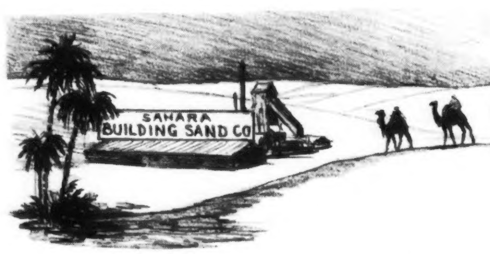
There is a third considerable class of such American industrial concerns abroad which represent direct investment for profit without regard to their relation to American trade and industry. American ownership is purely incidental. There is also a very limited class of such industrial concerns established primarily for the purpose of manufacturing goods for export to the United States.

The Wonder of It

THERE are several fallacies in connection with much that is said in regard to manufacturing in various countries. First among these is the general impression that the United States by reason of its high priced labor is not able to compete with other countries possessing what is commonly referred to as "pauper labor." The fact of the matter is that in nearly all lines of manufacture, particularly in the great industries in the United States, the labor cost is usually less than the labor cost in the same goods in other countries. American organization, the use of power machinery and high technical training make this possible.

Where other countries can manufacture goods more cheaply than they can be manufactured in the United States, it is nearly always because they possess some special advantage in such manufacture other than the labor element. It is a very exceptional case where a factory is established abroad for the manufacture of goods for export to the United States.

For years American watch manufacturers have maintained factories in Switzerland for the manufacture of



watches for export to the United States as well as to the Orient and South America. Herein advantage is taken of low priced hand piece labor trained in the manufacture of watch parts which exists in Switzerland to a greater extent than in any other country. It has always been realized that if the American concerns did not establish and maintain such factories other Swiss factories would take the trade. The same has been the case with several American established hardware concerns in Germany. Such factories have manufactured hardware in Germany for export to the United States, well realizing that if they did not manufacture it German owned establishments would do so.

The much touted removal of a jute factory from Maine to India depends upon the same state of affairs. The raw jute for this mill came from India. India itself for generations has maintained jute mills of the most up-to-date sort. It is cheaper to transport the finished gunny sacks from India to the American consumer than it is to transport the raw jute to Maine and then transport the finished product to the consumer. The wonder of the matter is that an American mill has ever been operated under the circumstances.

Indirect Results Important

THE one outstanding example of an American concern establishing a factory abroad for the express purpose of manufacturing products for export to the United States has been the Ford tractor factory established in Ireland. Tractors, as agricultural implements and machinery, are imported into the United States free of duty, and undoubtedly the chief occasion for the establishment of this factory in Ireland has been lower wages and a better supply of labor. It will be noted, too, that the American jute mill in India has been predicated upon the admission of gunny sacks into the United States as agricultural supplies.

Of course it would be to the immediate advantage of American labor and American prosperity generally if the goods manufactured abroad by American concerns either for foreign markets or for shipment to the United States could be manufactured within the United States. The advantage to American labor is evident. But if it so happens, as usually is the case, that when a limit of American exports of a manufactured product has been reached there is certainly no advantage to American labor in permitting the manufacturers of other countries to secure and hold a trade which American capital can secure by foreign operation. In other words, if American factories can no longer extend the export of the products of American labor directly there is no reason why the export of American brains and ideas should not be encouraged. In foreign extensions American factories can also better protect their

(Continued on page 269)

To the Members of the American Bankers Association

By CRAIG B. HAZLEWOOD

President, of the American Bankers Association and Vice-President, First National Bank, Chicago

I AM hopeful that a large number of the members of this Association will be represented at the Annual Convention to be held in San Francisco, September 30 to October 3. I believe it will be worth while. Our last Convention in San Francisco was held in 1903, and the whole Pacific Coast and San Francisco in particular has experienced outstanding development in the interval. Every banker in the Association should profit by seeing with his own eyes the magnificent natural resources of this part of the country, the industries whose credit and securities are frequently before him, and the people whose open-handed hospitality, frank manner of speech and pride for their city and state is well known and justified. Truly it is a marvelous country and well worth visiting from a pleasure standpoint alone.

The meeting at San Francisco will be the Fifty-fifth Annual Convention of the organization. The report which I shall make as your president will show you the great importance and wide scope of the activities of this Association. Although I have been more or less familiar with our Association's work for a good many years, I have been amazed during my term of office in the discovery of many ways in which various branches of our organization are carrying on for our Association in matters of technique, legislation, economics, public relations, banking education, publicity and general banking information.

Management a Vital Topic

THINGS are happening in the banking business today. The banker may not sit in his back room and be content with the self-assurance that things are the same as they were ten years ago and that there is no need for any new thinking. We must be alive to the developments that are taking place in our profession. "The elephants are marching." To be successful the country banker and the city banker alike must recognize the changes that have taken place the last ten years in the business life of his community, in the variety of banking service he must render, in the technique of the business itself, in his attitude toward the public and in the possible consequences of the growth of group and branch banking.

We mean to have a thorough discussion regarding what is happening in the banking business at the San Francisco Convention. The topic of bank management, with particular reference to country bank management, has been put forward prominently by this administration. We have done so in the belief that the vast number of our bank members are vitally interested in this topic of how better to run their banks. We have had a marvelous response from our membership to show the widespread interest in this subject. Ten thousand copies have been sold of the proceedings of a conference held in Chicago on commercial bank management. Our representatives, who have addressed bankers' meetings in all parts of the country on this subject, have found a very real and genuine interest in it. The financial press has been full of material regarding it. We have concluded, therefore, that the subject was of practical and paramount interest and we will devote a considerable part of our Convention period to it. At one of the general convention sessions there will be an address by H. N. Stronck of Chicago, on several phases of good bank management. Mr. Stronck has qualified as an expert in this matter; he has made studies of the earning assets and organization position of a great many banks, has figures at hand, obtained from authoritative sources, showing the position of a very large number of both country and city banks. He has a faculty of analysis and deduction, and his contribution together with the open discussion that will follow it will without doubt add a great deal to the thinking of our profession along lines of better operation of banks.

A Well-Rounded Exposition

IT has been announced that the Comptroller of the Currency, John W. Pole, is making a nation-wide survey of the growth and development of group, chain and branch banking. Whatever may be our personal convictions about the merits of the various types of bank organization, including unit banking, we should at least keep

ourselves informed of what is going on in this field. I am very pleased to announce that Comptroller Pole has consented to appear as a speaker at our Convention and I anticipate that he will present to us for the first time the findings of his survey, and also that he will set forth his opinions with respect to the standing and future of the national bank system.

This should be highly important and interesting information for our entire membership. Following his address there will be a speaker to explain the theory of so-called group banking. There will also be an address by a country banker of national reputation on the merits of unit banking. Our purpose is to present to the Convention a well-rounded out exposition of the various theories of bank organization, affiliation and control, and we sincerely believe that no member of our Association should neglect the opportunity of hearing this presentation.

Facilities Are Ample

DO not let it be said that as bankers we are "hiding our heads in the sand." There will be important additions to this program to be announced in due course. In addition, the principal divisions of the Association will each have a program which will include a list of prominent speakers and considerable discussion of important banking topics. There will be topics assigned to specialists in certain departments of bank service, as for example trust matters, savings and commercial banking methods and inter-bank relationships.

The hotel facilities of San Francisco are ample to take care of our Convention delegates, who are invited to bring their wives, and ample first-class facilities are available. A circular letter regarding hotel reservations was sent to all the members of the Association, and this was accompanied by a blank calling for first, second and third choices of hotels and giving complete information as to location, rates, etc. Up to the hour of going to press, reservations were somewhat less than at the same time last year but were coming in rapidly. It is suggested that all those who expect to attend and want a desirable hotel location write or wire at once.

Special Rates Available

JUST a word about the "official list," comprising those entitled to a chance to register at the headquarters hotel. There have been some opinions expressed about this, some of them in print, which if accepted as correct might lead to misunderstandings which would be quite unfortunate. The official list, made up as in previous years in accordance with the instructions of the Administration Committee and Executive Council was, in April, placed in the hands of the San Francisco hotel committee. The reservations for those bankers on the list, if received in time, are taken care of at what has been designated headquarters hotel. The list comprises the officers, councilmen, committeemen and such members of the staff as are present, all of whom are expected to attend committee and conference meetings in rooms at the headquarters, designated for the purpose by the respective group with which they are affiliated. In addition to those named, the speakers and invited guests are usually quartered at the headquarters hotel. State vice-presidents of the American Bankers Association, who are largely responsible for membership, are also assigned to the headquarters hotel. After a reasonable time limit has elapsed for reservations from the so-called official family, others are taken care of at the headquarters hotel. There are a variety of reasons for the choice of a particular hotel as headquarters, and it has happened in the past, the headquarters hotel is not necessarily the best hotel in town. There is no difficulty regarding the assignments at San Francisco on account of the official lists, and there is not likely to be, unless perhaps in minor exceptions due to the variable human element found in any group of men. Mr. Jerry Sullivan, Jr., vice-president Crocker First National Bank, is the chairman of the San Francisco hotel committee. He is an amiable and obliging gentleman and has an excellent corps of workers under him. Mr. Sullivan will have some few objectors to contend with, no doubt, but I hold to the opinion that by far the greater part of our delegation will be made comfortable and happy.

There are a number of special trains which are being made up to the Convention, information regarding which may be obtained from the Association headquarters or at any of the larger banks of the principal cities. Traveling will probably be more pleasant than in the regular service. Special summer tourist rates are available. No identification certificate is required. Your local ticket agent will give full information.

I shall hope to see a representative of your bank in San Francisco.

The 55th Annual Convention

Management, Group, Branch and Unit Banking Will Be Leading Topics for Consideration by the Fifty-Fifth Annual Convention of the American Bankers Association at San Francisco. Broad Scope of Program Insures Effective Banking Results.

VITAL questions bearing on the future of banking in the United States await the attention of the delegates to the Fifty-fifth Annual Convention of the American Bankers Association which opens in San Francisco on September 30. The four-day meeting is scheduled to consider the effect of modern economic conditions upon both the external and internal operation of banks.

President Hazlewood, of the Association, has elsewhere in this issue of the JOURNAL touched upon the highlights of

Comptroller of the Currency J. W. Pole

the Convention program, announcing the plans for discussion of group banking, which is the external side of the picture and management, which is the internal side.

Will Point the Way

IN a sense the San Francisco Convention will take stock of the progress that has been made by the bankers of the country in increasing their efficiency in the operation of their institutions through the application of scientific principles of management. With the impetus that has already been given the movement for better management during the past year already productive of encouraging results, the Convention is expected to point the way to the highest type of successful bank administration.

It is particularly appropriate that the Annual Convention should meet on the Pacific Coast this year. Developments in group banking have reached the point at which the subject stands out in the interest of the bankers of the country. On the Pacific Coast group and branch banking are more in evidence, perhaps, than any other section of the country. Thus it is on the ground, so to speak, that the Convention will discuss the question which so intimately concerns the future of the banking structure of the country.

Meetings of the various divisions and sections of the Association will carry forward the note of banking progress which runs through the program of the general Convention. This year, however, there will be no separate meeting of the Clearinghouse Section. During the past year the work of the Section has been concentrated upon the advancement of better banking practices. And the opening general session of the Convention will be devoted to the subject of bank management.

In the outline of the general Convention which is given below the order on the program of the various speakers is tentative and subject to change as to hour or session.

Three General Sessions

GENERAL sessions of the Convention, of which there will be three, will be held at the Curran Theatre. The first general session will be called to order by President Craig B. Hazlewood, vice-president of the First National Bank, of Chicago, at 10.30 a. m. on Tuesday, Oct. 1.

The invocation at the opening session is to be delivered by the Most Rev. Edward J. Hanna, Archbishop of the Diocese of San Francisco. After the invocation Mr. Hazlewood will deliver the President's annual address to the Association.

The principal speaker at the first general session will be H. N. Stronck, chairman, H. N. Stronck Company, Chicago. He will address the Convention on "Better Banking," giving an exposition of the principles of scientific management. Mr. Stronck is one of the leading authorities in the country on bank administration methods and took a leading part in the Mississippi Valley conference on bank management which was held at Chicago during the winter.

The opening session of the Convention will also hear an address by Robert L. Gordon, Bank of Italy National Trust and Savings Association, of Los Angeles. Mr. Gordon was the winner of first prize in the Giannini Endowment Fund National Public Speaking Contest at the 1929 Annual Convention of the American Institute of Banking.

Branch and Chain Banking

J. W. POLE, Comptroller of the Currency, is to be the principal speaker at the second general session of the Convention on Wednesday, Oct. 2, at the same hour. He is expected to touch

Robert L. Gordon, Bank of Italy National Savings and Trust Association

upon branch banking from the standpoint of national bankers. At various times during the past year Mr. Pole has indicated that he is giving serious thought to the subject of branch banking by national banks and has announced that he plans to make recommendations on the subject to Congress. Hence his address to the Convention is expected to be of especial importance. The Rev. W. J. Sherman, of the Temple Methodist Episcopal Church, has been invited to deliver the invocation at the second session.

The final general session will be held at 10.30 a. m. on Thursday, Oct. 3, and will be devoted to the consideration of group and unit banking. After the invocation by Rabbi Louis I. Newman, of

Temple Emanu-El, George W. Davison, president of the Central Hanover Bank and Trust Company, of New York, will speak on chain banking. He will be followed by Max B. Nahm, vice-president of the Citizens National Bank, Bowling Green, Kentucky, who will speak on unit banking. At the conclusions of these addresses, Rudolf Hecht, president of the Hibernia Bank and Trust Company, of New Orleans, Louisiana, will present a summary of the general banking situation, analyzing the elements of chain and unit banking.

The St. Francis Hotel will be the Convention headquarters, where there will be meetings on call of the chairman of the Protective Committee, Special Committee on Section 5219 United States Revised Statutes, Resolutions Committee, Executive Committee, Finance Committee, Administrative Committee and other committees. The meetings of the Divisions of the Association are scheduled to be held in the Colonial Ball Room of the headquarters hotel. The State Secretaries' Section will meet in the Italian Room.

George W. Davison, president Central Hanover Bank & Trust Co., New York

National Bank Division

THE National Bank Division will be the first of the Divisions of the Associations to meet and will be called to order by President Edgar H. Sensenich, president of the West Coast National Bank, of Portland, Ore., at 9.30 a. m. on Monday, Sept. 30.

After the address of the President of the Division, Arch W. Anderson, vice-president of the Security-First National Bank, of Los Angeles, will speak on the "Investment Policy of a National Bank." The second speaker, George H. Hamilton, vice-president, the Fourth National Bank, Wichita, Kan., will discuss the "National Banking Trend."

The Trust Company Division will be called to order by President A. V. Morton, vice-president of the Pennsylvania Company for Insurance on Lives and Granting Annuities, Philadelphia, at 2 p. m. on Monday, Sept. 30. There will be three speakers to address the meeting after the opening address by the President.

James A. Bacigalupi, president of the Bank of Italy National Trust and Savings Association, San Francisco, will discuss "The Growing Importance of the Trust Department in the Modern Bank." Hillsman Taylor, president of the Missouri State Life Insurance Company, St. Louis, will describe "The Business Insurance Trust," and Herman Phleger, of Dunne, Brobeck, Phleger and Harrison, of San Francisco, will talk on "Protecting the Trustee." Following these addresses there will be an open forum on current fiduciary topics.

Savings Bank Division

THE Savings Bank Division will be called to order by President Taylor R. Durham, vice-president, First National Bank of Chattanooga, Chattanooga, Tenn., at 2.30 p. m. on Tuesday, Oct. 1.

The principal addresses will be made by Jay Morrison, vice-president of the Washington Mutual Savings Bank, Seattle, Washington, whose topic will be "Leasehold Loans for Savings Banks," and Rufus Bernhard von KleinSmid, Ph.D., LL. D., whose subject is "Today's Laboratory Is Tomorrow's Industry." Following the speakers there will be a forum discussion.

State Secretaries' Section

THE State Secretaries' Section will meet in the Italian Room of the St. Francis Hotel at 2.30 p. m. on Tuesday, Oct. 1. President Frank Warner, of Iowa, will preside.

Speakers are listed to describe the results of various activities in the following order: "Bank Taxation," J. W. Brislawn of Washington; "County Bankers Associations," Miss Forba McDaniel, of Indiana; "Insurance," Eugene P. Gum, of Oklahoma; "Protection from Criminals," M. A. Graettinger, of Illinois, "Public Education," C. F. Zimmerman, of Pennsylvania; "Coordinating Earnings, Expenses and Dividends," C. H. Mylander, Ohio; "Inter-State Conferences," W. A. Philpott, Jr., of Texas; "Efficiency Experts for Country Banks," Henry S. Johnson, of South Carolina; "Greater Earning Power for Country Banks," Edward J. Gallien, of New York; "Resident Bank Examiners," W. B. Hughes, of Nebraska; "Credit Bureaus," Wall G. Coapman, of Wisconsin; "Licensing Bankers," W. W. Bowman, of Kansas, and "American Institute of Banking," Robert E. Wait, of Arkansas.

State Bank Division

THE State Bank Division will be called to order by President S. J. High, president of the Peoples Bank and Trust Company, Tupelo, Miss., at 2.30 p. m. on Wednesday, Oct. 2. After the address of the President the program for the Division meeting calls for two addresses and a symposium of fifteen minute discussions.

S. L. Cantley, Commissioner of Finance of Missouri, will speak on "Organized Cooperation, the Basis of Sound Banking," and W. L. Brooks, president of the Northern National Bank, Bemidji, Minn., will deliver an address on "Regional Cooperation Pays Dividends." Topics for the symposium are: "Unit Banking Best Adapted to Agricultural Needs;" "Group Banking Best Adapted to Agricultural Needs," by E. G. Bennett, vice-president, Anderson Brothers Bank, Idaho Falls, Idaho, and "Limited Branch Banking Best Adapted to Agricultural Needs," by Clyde Hendrix, president, Tennessee Valley Bank, Decatur, Ala.

Arrangements Effective

SAN FRANCISCO bankers have made particularly effective arrangements for the entertainment of their guests. Those attending the Convention will have opportunities to visit the many points in and about San Francisco which are rich in the history of California and wrapped in the scenic beauty of the Pacific Coast. Opportunities for sightseeing from shipboard as well as on land will be offered.

R. S. Hecht, president Hibernia Bank & Trust Co., New Orleans, La.

There will be open at the St. Francis Hotel during each day of the Convention joint headquarters for state secretaries having no separate headquarters, booths for the hotel committee and information bureau, registration headquarters, the office of the general association, a golf committee desk, a post office and a ticket validation desk.

After the close of the Convention on Friday, Oct. 4, the annual American Bankers Association Golf Tournament will be played on the Lakeside Course of the Olympic Golf Club.

Entertainment Program

DETAILS of the entertainment program offer a wide range of hospitality to the visiting delegates, starting with automobile tours around San Fran-

(*Continued on page 272*)

The High Cost of Country Banking

By BRYCE EDWARDS

Burden of Unprofitable Accounts Felt Most by Small Country Banks. Analysis of One Institution Shows Cost of Handling Checks Is Almost Four Cents Each. Government Borrowing Rate Has Forced Up Interest Allowed on Savings in Some Sections.

AUTOMOBILES, radios and literature have urbanized rural living. People in the country spend more. In addition, the cost of country banking has increased and more losses have occurred from default and bankruptcy since the war—yet, in this transition rural rates of interest have remained the same. Hence country banking must find ways and means of increasing income and reducing costs.

Many people in rural sections are now in the borrowing class as newcomers who formerly kept small but inactive accounts which were profitable. Now these people, in order to buy an automobile, radio or other recent attractions, seek to borrow money, or buy on the installment plan, and their accounts are both active and very small.

Also, with the advent of the stock and bond buying propensity of Americans, many others who formerly kept good balances now begin to fret before their account reaches paying proportions lest they lose a few pennies in coupons. Stories are told of depositors who will overdraw their account for a week in order to buy a bond of $100.

Retrenching Called For

THE fact that the government has been paying 4 per cent and better for money has forced country banks to pay 4 per cent and even as high as 5 per cent for time deposits. This has caused a higher ratio of savings to demand accounts with a corresponding greater cost to the banks. All of which calls for retrenching to make country banking more remunerative.

Below is given an expert analysis of a bank in northwest Missouri which has $120,000 capital and surplus and around $750,000 in deposits. It is a conservative national bank, maintaining 20 per cent of its deposits as cash and sight exchange, and lies in a strictly rural community.

Coin Banks Cause Losses

THE prevailing rate of interest in the community is 6½ to 7 per cent. The bank pays 4 per cent for time deposits. The average income per $1 deposit of this bank is $.057. It costs the bank

Valuable Comparisons

THERE is presented here a very simple method for analyzing costs in a small bank which requires none of the more involved process in use in some of the larger institutions. Actual results of a determination of the cost of doing a banking business in a strictly rural community are shown. Even those banks that have made careful studies of their expenses may find in this article the means for valuable comparisons between the methods used and those described here.

$.017 per dollar for lending, collecting loans and administrative work. And it costs $.00021 per dollar for the receiving, paying and bookkeeping of savings accounts. Thus the total income per dollar of savings accounts is $.057 as against a total cost per dollar of deposit of $.05721, or a loss of $.00021 per dollar time deposit.

To make these accounts profitable it would be necessary either to loan more than 80 per cent or to increase the interest rate to borrowers where this is possible. It is probable with the present trend of public behavior that the lowering of the rate paid on these accounts would result in diversion of some of this money to bonds. Where coin banks are given away with savings accounts a corresponding larger amount is lost in this department.

It costs this bank $.0385 per check handled. This is nearly four cents per check! Few people realize that a check costs a bank any such amount. In some large city banks the cost is around two and one-half cents. It costs the Missouri bank $.0732 per deposit, including clearances, items in transit and exchange. It costs some large city banks three or four times this much, but the amounts handled average much larger.

To arrive at these figures the wages of the tellers and bookkeepers, amounting to $3,180, were added to three-fourths of the incidental cost of $4,194 and one-fourth of the taxes of $3,451. This total was considered the cost of receiving and paying all items. The bank handled 4320 drafts, 121,992 checks, 22,506 items of remittances, 23,712 deposits and 1436 items in the time accounts. Each class of items was given a time cost and comparative incidental cost and divided proportionately into the total cost.

It was calculated that each item of remittance cost $.0385, each draft $.0595 and that savings accounts items corresponded to drafts and checks.

The total cost of demand accounts was $.028 per dollar of deposit. Since the income per dollar deposit is $.057, it is seen that demand accounts generally make a profit.

Ruled Out of City Banks

THIS bank has forty-eight depositors whose average balance is above $1,000, fifty-nine whose balance averages between $500 and $1,000, 344 whose account ranged between $100 and $500, 196 ranging from $50 to $100 and 999 whose average deposit is less than $50. As a matter of wonder, the actual average of these 999 accounts was only $13.68. The average account in this group had 115 checks against it in the course of a year, costing $4.48 and twenty-two deposits costing $1.65. The average loan value per account was $.50, making a net loss of $5.63 per account.

It is astounding to see that the bank lost around $5,600 per year on this class of accounts.

Some accounts in the group under $50 were inactive, having neither deposits nor checks. Such accounts may make as high as several dollars a year. On the other hand, flagrant examples of banking abuse are seen in such accounts, as one averaging $15 on which 336 checks were

(Continued on page 272)

EDITORIAL

Convention Report in the Next Issue

THOUGH the Annual Convention of the American Bankers Association will be in progress in San Francisco at the time when the JOURNAL usually is closed for the month, the next number, the October issue, will cover in full the proceedings of this important Convention, and the magazine will be mailed to subscribers at the customary date.

The American Way

SECRETARY of Commerce R. P. Lamont has brought to light a new accomplishment by this country which has gone almost unheralded. Commenting upon the balance of payments of the United States for the year 1928 the Secretary remarked:

"In the second half of the year we thrust a 'billion-dollar transfer problem' upon the outside world by increasing our favorable trade balance by $452,000,000 and reducing our underwriting of foreign securities by some $610,000,000. That but few people even observed the phenomenon indicates that 'problems' of this type are very likely to be exaggerated."

This is a highly significant observation upon the adjustment of international accounts. For years the "transfer problem" has been held up as one of the greatest obstacles to a practical plan for the payment of German reparations. Even the Young plan is not believed to have insured a solution.

Yet the United States with a transfer problem on its hands appears to have gone ahead, in the American way, and solved it. Europe may find the "transfer problem" less terrifying in the concrete than in the abstract.

Automatic Modification

WASHINGTON dispatches report that the foreign loan policy of the United States is to be modified. The ratification of the American war debt funding agreement by the French Government is the reason assigned. As a matter of fact the action of France automatically modifies the foreign loan policy of this country.

Through the cooperation of the bankers it has been possible for the State Department to withhold its approval to the proposed flotation of foreign loans in the United States whenever such a step has seemed advisable. The three chief reasons for the withholding of approval have been the failure of the applicant country to refund its war debt to the United States; evidences that the proceeds of a proposed loan were to be used for increasing armaments; and evidences that the proceeds of the proposed loan were to be used in furthering a monopoly of raw materials to the detriment of this country.

France by accepting the Mellon-Beranger funding agreement has cleaned the slate of unsettled war debts of the United States. Hence the first of the chief reasons for State Department disapproval of foreign loans has disappeared. However, to lift the embargo on loans to France is more of an empty gesture than anything else since that country is in a position to figure in the international money market as a lender rather than as a borrower.

Any modification of the other two chief factors in the American foreign loan policy is extremely doubtful. The Administration is too closely identified with the disarmament movement and the principle of combating foreign monopolies of essential raw materials to open either of these doors.

It may be just as well for the banks who are mainly concerned with domestic business that a real modification of the foreign loan policy is unlikely. There will then be one less element in an ever-shifting economic panorama to be taken into consideration.

Calendar Reform

THE National Committee on Calendar Simplification for the United States has reported to the State Department that as a result of a year of investigation it considers that the requisite conditions exist to justify the participation of the government of this country in an international conference to provide for the simplification of the calendar. These conditions as reported are:

"The prevalence of a demand for calendar improvement on the part of a large and representative body of American opinion.

"A growing recognition by the general public of the grave defects of the present calendar, a lively interest in the methods by which these can be overcome, and an intelligent understanding of the principles of calendar reform.

"The actual experience of many business concerns with the use of private simplified calendars to secure more accurate accounting in their business affairs, and their practically unanimous judgment in favor of the general simplification of the civil calendar."

The report lists the Executive Council of the American Bankers Association among the organizations found to be favorable to the idea of American participation in an international conference to consider calendar reform. This was the result of action taken at the Spring Meeting in April, which, however, did not commit the Association to any particular type of calendar reform, nor even to the principle that any reform is necessary.

It seems very probable that an international conference will be held at some time in the future to discuss the subject. Therefore, it might be well if banking opinion in this country were crystallized either in favor of reform or for the retention of the present calendar year. No other field of activity works more by the calendar than does banking. A serious proposal to change the system of reckoning the days and weeks of the year is worthy of serious thought.

Attention to Earnings

THE rapid growth of net earnings, which have increased at a much faster rate than either total assets or production, is pointed out by the Midland Bank of Cleveland as a noteworthy development in industry during the past few years. The bank has made an analysis of the balance sheets of 314 leading corporations in the United States, including 238 industrials, forty-one railroads and thirty-five utilities, over the past three years.

"It is of interest to note," says the bank, "that while industrial production, as measured by the Federal Reserve Board's index, increased only 1.9 per cent a year between 1925 and 1928, the rate of growth in earnings was four and a half times as great. This partly answers the question of why the stock market has gone ahead so much faster than 'business' in the last three years, the explanation being that business as measured by production and business as measured by earnings has shown two very different results. The stock market has paid closer attention to earnings than to production.

"It may be objected that the earnings of the 314 leading corporations used have made a better showing than if all concerns in the United States had been included. This may be true to a certain extent, but could hardly explain all of the disparity between a yearly gain of 1.9 per cent in production and of 8.7 in profits. Nor can the disparity be laid to price inflation, as in 1910-1920, inasmuch as the commodity price level has varied but little in the past three years."

Assuming the accuracy of the bank's findings as to the stock market it can be pointed out without the aid of statistical data that another great financial group is paying closer attention to earnings, namely banking. Banks have always paid attention to the earnings of industry but now they are paying closer attention to their own. This partly answers the question of why the banks are going ahead so much faster.

The Age of Speed

IT has been customary for the past quarter-century to speak of the age of speed as though the ultimate had been accomplished in swift transportation. Compared to the everyday travel of a century ago, people and goods move to and fro at a marvelous rate. Yet speed after all is only relative.

Only a few years hence the present may be looked back upon as the beginning of a new age of speed. Further comparisons will be drawn. Even as steamships plow through the seas for record crossings the air is becoming the bridge of the Atlantic. Combinations of air-rail-and-ship travel are being evolved that rival the fabled magic carpet. In this country the distance from coast to coast is being conquered again and again.

The future challenges the imagination. Miles give way to hours in the measurement of distance. Soon there will be no far places.

What sort of an age will it be to live in, this speedier age? Undoubtedly even a better one than the age of speed.

In this country, the leader in transportation development, there has been a growing prosperity. American prosperity has not been confined to the cities, the great money and manufacturing centers. It has filtered through the nation on the winge of swift transportation. Of the many forces that have gone into the making of this prosperity, facility of movement has been indispensable.

Looking ahead then as speed devours space the possibilities of progressive prosperity appear virtually unlimited. The whole world comes within the picture.

Going Up Hill

ONE of the guiding principles of American business has often been expressed through the homely analogy that the time to put on power is going up hill. The principle, familiar in practice to a nation of automobile drivers, has become almost axiomatic and to its acceptance may be attributed much of the compelling force behind the national prosperity.

Banking under present conditions may be said to be going up hill. The period of readjustments which banking is passing through offers all the obstacles that impede the way in a stiff climb to new and higher levels. Power is demanded to make the ascent.

The general public, however, hardly appreciates the force with which power is being applied to bring banking through the era of adjust or the steady, ground-gaining progress that is being made. Mergers and consolidations in the sphere of banking are familiar to a public, long accustomed to this trend in the field of business. Less familiar is the persistent competition on the part of non-banking agencies and their encroachment in the field. Even less does the public understand changes in credit channels and their consequences.

Nevertheless the banks have been meeting, step by step, each change in the conditions under which they must operate. Perhaps never before has there been such an enlightened effort to perform efficient service, and efficient service has come to be measured not only in terms of what the customer gets but in what the bank receives as well. The proper power is being applied to keep the machine moving uninterruptedly up the hill.

San Francisco Beckons

NOT the least of the glories of this country is its breadth, both of territory and of viewpoint. To the European it is a constant source of wonder that a people who inhabit a domain stretching from the Atlantic to the Pacific can crystallize their opinions into national thought.

Much of this unanimity of thought and opinion can be attributed to what has become an American institution—the convention. Countless organizations holding their meetings in different parts of the country represent miniature melting pots, refining the ideas of the members who come from all sections of the nation. And the higher the standards of these assemblies the greater the service to the national commonwealth.

Thus the American Bankers Association by its Annual Convention plays its part in fortifying the solidity of the United States. Each year its delegates come from the four corners of the nation to the wide-open gates of a welcoming city. This year San Francisco beckons. The East will go West, returning the visit paid last year to Philadelphia by the stalwart sons of the Pacific Coast.

Brokers' Loans and Bank Deposits

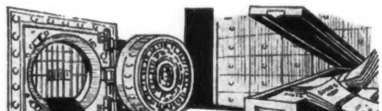
By HENRY E. SARGENT

Direct Relation Seen Between Rise of Call Loans by Lenders Other Than Banks and Recent Decline in the Total Volume of Deposits. Slowing Up in Rate of Deposit Expansion Reflected in Bank Loans and Investments but High Levels Maintained.

FOR several months the trend in the volume of bank deposits has come to be watched with a new interest, especially in the financial centers of the country. After years of almost uninterrupted expansion in total volume, what might be taken for a recession seems to have made its appearance.

Examination of available statistics, however, fails to disclose any factors in the situation created by the decline in bank deposits which exert any pressure upon the strength of the banking structure. On the contrary such decline in bank deposits as is revealed by the figures has been relative rather than absolute and compensating factors have tended to improve the basic condition of the banking institutions as a whole.

The most recent figures to throw any light upon the course of deposits are those of the Comptroller of the Currency which analyze the results of the June 29 call for the condition of the national banks. Some emphasis is placed upon a decline in volume of deposits by the analysis which reported that the total deposit liabilities of the national banks on the date of call were $21,598,088,000, a reduction of $1,274,792,000 since March and a reduction of $1,041,249,000 in the year.



The Major Force

RECENT bank figures have given some emphasis to a decline in deposits but an examination of the reports for all institutions discloses that the reduction is relative rather than absolute. At the same time the course of loans to brokers and dealers in securities by others than the banks shows whence comes the major force in bringing about this condition. The flow of these funds to the call market not only draws down deposits but affects the source of new deposits.

Rate of Growth Slower

SOMEWHAT less serious a decline is disclosed by the totals for demand and time deposits, excluding interbank deposits and other items of deposit liability. Thus the total of demand and time deposits reported by the national banks for June 29 amounting to $19,049,606,000 is compared with a total of $19,374,483,000 on March 27 and with $19,486,349,000 on June 30, 1928.

Much of the shrinkage in national bank deposits has been attributed to the withdrawal of bank balances and to peculiar conditions which the national banks have had to face. Nevertheless it is fair to assume that the national banks also reflect the force of the circumstances which are having their effect upon the immediate volume of deposits in the entire banking structure.

June figures for all the banks in the United States are not yet available. But the Federal Reserve Board statistics for all banks, member as well as non-member, as of March 27 show the situation with respect to deposits, exclusive of interbank deposits, in the following table:

Call Date	Total Deposits
1927—June 30	$51,662,000,000
Dec. 31	52,909,000,000
1928—June 30	53,398,000,000
Dec. 31	56,766,000,000
1929—March 27	54,545,000,000

These figures disclose a reduction in the deposits of all banks in the United States of $2,221,000,000 in the period between December 31, 1929 and March 27, 1929, virtually the first quarter of the year. Substantial as this decline is, yet it is evident that there has been no interruption, so far at least, in the annual growth in total volume. Even with the large drop during the first three months of 1929 the total of deposits was still greater than at any time previous to December 31, 1928. It would appear that what has developed is a slowing up in the rate of expansion of deposits rather than a falling off.

High Rates Exert a Pull

THERE are a number of reasons why this condition should obtain. First and foremost there are the stock market and the call money market. The attraction of a rising market for securities and high rates for call money has exerted a pull upon deposits. Perhaps the greatest part of the immediate decline in deposits may be attributed to this pull, although seasonal factors must of course be reckoned with during the first quarter of the year.

Accompanying the direct reduction in deposits through the movement of funds into investment channels there has been an absence of any appreciable growth in the loans and investments of the banks. From this source most of the deposits arise. A halt in the continued expansion of loans and investments has been the controling element in slowing up the rate of growth of deposits.

The situation with respect to loans and investments may be seen from the following table, taken from the Federal Reserve Board's latest report of the condition of all banks in the United States:

Call Date	Total Loans and Investments
1927—June 30	$53,750,000,000
Dec. 31	55,450,000,000
1928—June 30	57,265,000,000
Dec. 31	58,266,000,000
1929—March 27	58,019,000,000

The trend in the volume of loans and investments reflects the same situation that has already been shown for deposits. Up to the end of 1928 loans and investments steadily increased and deposits continued to expand. By the end of March loans and investments had stopped short. Actually there was a reduction of about $250,000,000 from the December figures. Deposits, as can be seen from the first table, expanded until December, 1928 and then fell off.

Deposits Reflect Prosperity

NOTWITHSTANDING the rather substantial decline in total deposits during the first quarter of 1929 the increase over past years would seem to indicate that the normal growth is con-

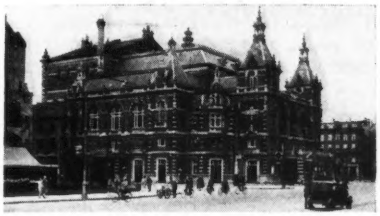
(*Continued on page* 274)

International Team-Work at Amsterdam

By FRED N. SHEPHERD
Executive Manager, American Bankers Association

Desire of Business for World Peace Was Pervading Spirit of Amsterdam Congress of International Chamber of Commerce. It Considered a Wide Range of Subjects Affecting All Aspects of Trade and Finance Seeking Uniformity and Understanding.

TO Americans, especially Amsterdam, where the 1,500 delegates to the Fifth Congress of the International Chamber of Commerce assembled on July 8, 1929, is an interesting city. Of the 750,000 population, about 98 per cent is Dutch, and of the 2 per cent of foreign nationality, 1



The Concert Hall

per cent is German and one-fifth of the remainder, Belgian. For homogeneity of population what American city can beat that?

The surprising aspect of the street traffic presented by Amsterdam is that of the bicycle. There are no fewer than 200,000 bicycles, or one to every three and a half inhabitants. The sight of this enormous number in the busy streets was very interesting to an American, in view of the fact that there are less than 10,000 motor cars and 2,500 motor vans and drays registered in the city.

On a High Plane

THE Congress, which met at Amsterdam, was divided into four groups: Industry and Trade, Finance, Legal, and Transport and Communication, with members in each group from the thirty-nine countries represented. In preparation for the meeting committees in the different countries had been at work since the Fourth Congress held two years ago at Stockholm.

At the present meeting greatest popular interest possibly centered in the subjects of double taxation, trade barriers, documentary credits, comparative results of private and public ownership, sea, highway, rail and air transport, together with bills of lading.

The American group, consisting of above 150 delegates, was led by Mr. Thomas W. Lamont, president of the American Section, who had recently spent four months in Europe as a member of the Committee of Experts which formulated the Young plan on German reparation payments.

The president of the International Chamber of Commerce, Mr. Alberto Pirelli of Italy, the representative of the Italian government on the Young committee, put the Congress on a high plane in his opening address and insofar as possible dismissed the fears of those delegates that controversies on problems of a governmental nature beyond the authority of the Congress might arise during the sessions.

Business Wants Peace

THE entertainment of the delegates was in keeping with the high tone of the Congress. The inaugural session, which was held in the "Concert Hall" was honored by the presence of His Royal Highness, Prince Hendrik of the Netherlands. On Tuesday evening the Municipality of Amsterdam tendered a concert by the famous Concert Hall Orchestra. On Wednesday evening, a banquet was tendered to the delegates. On Thursday evening, at the Royal Palace, Prince Hendrik, acting for the Queen, received the delegates in the beautiful Civic Hall, where for the first time the original marble floor of van Campen, with the representation of the firmament in inlaid copper, was uncovered, and on Friday evening, there was a garden party.

President Pirelli in his address at the opening session of the Congress, speaking for all business, expressed the spirit of the meeting when he declared: "We want peace. Certain interests make profit by war. Business as a whole prospers only by peace. Business interests can help to maintain peace by contributing to remove causes of friction before they develop into causes of war."

The President for the ensuing term, Mr. Georges Theunis, former Minister of Finance and Premier of Belgium, emphasized the importance of business. "I know," he said, "the lives of all men depend upon business. The material existence and the intellectual life of men just as much as their happiness depend upon their industrial, commercial, and financial activities. That is why the International Chamber of Commerce is above all things concerned in making

The Royal Palace, Amsterdam

business more uniform in its practice and policy, more harmonious in truth, and more peaceful."

A Common Understanding

WHAT then was accomplished in a practical way at Amsterdam? This Congress has no power of legislation. Its strength consists solely in bringing specific propositions to the conscious attention of individuals and thus to the fountain head of government. Its objectives must in many cases await years for realization. They can only be achieved after extensive investigation and discussion.

The whole effort on the part of the organization is to simplify business transactions between countries, to standardize practices and nomenclature, and to bring about a common understanding where the difference of language might make for confusion.

The first results of agreements come in the form of resolutions. Any subject on which there is not agreement among the various countries is referred back for further action. At the conclusion of the Congress there is not the bugaboo of a majority and a minority report. There is one report or else the matter is referred back for consideration at a later Congress.

Waterways within the city

Insistent Demand

IF double taxation, which was one of the problems before the Congress, is to be eliminated, such remedial action can be obtained only by education developed through such an organization as this, which went on record as stating that double taxation "can be avoided either by taxation according to residence alone or by taxation according to origin alone," and adheres to the view that the ultimate solution to the problem lies in the adoption of a uniform multilateral treaty.

The Congress strengthened the hands of those who object to the foisting on cities of unmatured plans for international fairs, by expressing the opinion "that the number of general international fairs should be in keeping with economic needs."

The recommendations concerning transport are too long to be quoted here. Relative to the newest type of transport, that of air, the recommendations and requests take considerable space but are well thought through and specific.

Again, there is the insistent demand for the adoption of the Hague Rules, which in the United States have been approved by the State Department, the Department of Commerce, the United States Shipping Board, the American Bankers Association, but which have not yet been enacted into law. Recommendations also touch on internationl telephone, telegraph, and postal service.

Public Ownership Discussed

ONE of the most interesting phases of the Congress had to do with the work of the special committee on public and private enterprise. Each morning the American delegation held a meeting in order that all the delegates might be informed of the progress made on those matters in which America was particularly interested. Here was discussed the subject matter of the resolution to be offered by the American committee. Since there was no desire on the part of Americans to impose unduly their thought in the belief of the efficacy of private initiative and private operation of enterprises upon the representatives of other countries, it was desired to give the greatest consideration to the framing of the statement.

At the Congress the subject was discussed by Mr. Becht of Germany, Mr. Julius H. Barnes of the United States, Sir William F. Lathlain of Australia, Mr. Motta of Italy, Mr. Joehr of Switzerland, Mr. Trepka of Poland, Mr. Aiton of Great Britain, and Mr. Sand of Belgium, and finally the Congress declared that, "Public ownership and/or operation, can only be justified in the fields where its exercise is inseparable from the exercise of authority. In all other cases where commercial or industrial activity is involved, public authorities should renounce direct ownership and/or operation, and limit themselves to such regulation as may be justified by the special character of certain enterprises, and then only when the necessity for such regulation has been conclusively proved."

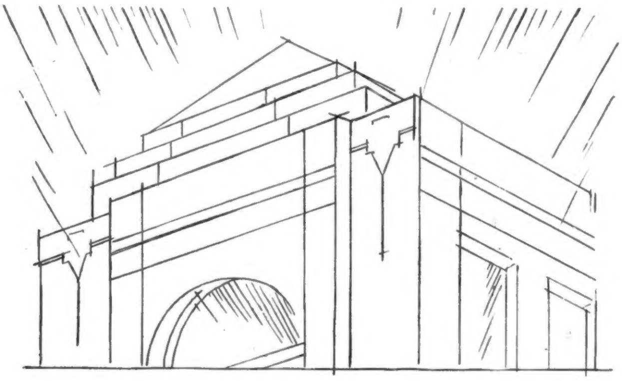
Viewed with Satisfaction

IN the distinct field of banking, attention was given at length to commercial documentary credits. On the matter of letters of credit forgeries and authentication of orders for payment there developed wide divergence of thought, brought about of course by the difference in law and practice in banking in Europe and the United States. Agreement could not be had and the matter was referred back to the Council. In the various states of the United States the corrupt practices act has standardized banking law generally throughout the country. In Europe no such uniform condition obtains among the various countries. The banking business, dovetailing as it does with every other business, can revamp or change its practice or succeed in amending the laws governing it only with difficulty and after adequate lapse of time.

The special committee having in charge the subject of international settlements naturally was handicapped in any pronouncement on the settlement proposed in the Young plan by reason of the fact that this plan had just been formulated by the Committee of Experts and had not yet been acted upon by the Reparation Commission or by the interested governments. As a result, the Congress contented itself with a statement that, "considering the Young plan as a whole, it has viewed with great satisfaction the intention of the experts to remove the reparations problem from the arena of political strife and to find economic methods of arriving at a solution. The Chamber hopes the plan may receive prompt and favorable consideration and that, as a result, a final and complete settlement of the problem may be reached."

Thus the Congress ended in this city—a city farther north than the northernmost tip of Labrador, eighteen miles from the sea, whose port was entered in 1928 by almost 4000 sea-going ships. In New Orleans a ship entering the Ponchartrain Canal from the Mississippi River finds the Gulf (canal) level from five to twelve feet lower than that of the river. Vessels entering the North Sea through the North Sea Canal from Amsterdam find the waters of the sea five to twelve feet higher than those in the canal.

A traffic jam in Amsterdam



Consciously or unconsciously, your customers are influenced—more or less favorably—by the appearance and quality of your checks.

Gilbert Safety Bond combines beauty with protection. It is made with attractive plain surface colors that also act as protection against mechanical and chemical erasure.

Before placing your next order for safety checks ask your lithographer for a sample book of Gilbert Safety Bond. It contains specimen sheets of each color and describes the makeup of the bond that establishes it as the modern idea in Safety Paper.

You do Justice *to your* Bank *when you*

Specify GILBERT SAFETY *Bond*

18 87 MW

Made by GILBERT PAPER COMPANY, Menasha, Wis.

Why the Discount Rate Was Raised

By W. M. KIPLINGER

Unexpected Advance in New York Reserve Bank Rate in August Interpreted as Called for by the Position of Member Banks Rather Than as Aimed at Stock Market Activity. Way Cleared for Fall Credit Demand by Lowering the Rate on Acceptances.

From the Firing Line

WRITTEN from the firing line in Washington this article describes authoritatively the reasons underlying the 6 per cent rediscount rate adopted by the New York Federal Reserve Bank and discloses how the upward movement may prevent an increase in commercial credit rates later in the fall. A new significance is also noted in the sharp action taken by the reserve system.

ONE of these sudden summer lightning flashes and thunder claps came out of the financial sky on August 8 when the Federal Reserve Board approved an increase in the New York rediscount rate from 5 to 6 per cent and a simultaneous reduction of the open market bill buying rate from $5\frac{1}{4}$ to $5\frac{1}{8}$ per cent. There followed the echoes of thunder and the wails of stock speculators when prices collapsed, partly out of alarm but more out of surprise, for it was one of the most unexpected actions the Federal Reserve System ever took, from a popular standpoint. Now, however, the atmosphere has brightened and the reasons for the policy seem fairly clear, though not precisely simple.

An effort is made herein to explain the situation faced by the reserve system, the motives and the expectations, and to do this in terms of the main essentials, with a minimum of the finer points of motive and the qualifications which always enter into the analysis of credit policy. Strictly speaking, there is available no official and authoritative explanation of the reserve board's action. One reason for this is that the action is supposed to speak for itself. Another reason is that all members of the Federal Reserve Board would not agree on any simple explanation of motive and intention. They arrived at a common conclusion of action by different avenues of thought.

Very Human Actions

LET it be understood that the raising of a rediscount rate and the lowering of a bill rate are very human actions. There is no rule of thumb which determines that this is the thing to do and that this is the time to do it. There is no mathematical formula for proving in advance the wisdom of such action, or for appraising accurately the results. It is distinctly a matter of human judgment, and very human at that. It has about it something of the flavor of experimentation, for in these days of unusual credit conduct the old laws, as we know them, do not behave.

It is really constructive to recognize that the Federal Reserve Board and its group of official advisors in the reserve banks are not all-knowing, all-seeing, all-wise financial gods. A proper understanding of this should not diminish their prestige, but rather increase it. They are wrestling with doubts and perplexities and weighty responsibilities without any adequate accumulation of precedents, for these are new financial times.

The story in crude and brief outline is this: Rediscounts of member banks with all reserve banks were hanging persistently around the $1,000,000,000 mark, about double the previous "normal." Holdings of bankers' acceptances or bills were abnormally low, being $100,000,000 in July. Holdings of government securities were low.

The fall demand for credit—which means chiefly money, currency, cash—was beginning. Either money was due to tighten throughout the remainder of the year, or the reserve system had to release credit in order to prevent such a tightening. Then arose the question of how this should be done, whether through (1) the rediscount gate, (2) the bill gate or (3) the United States securities gate. It was not considered desirable to have member banks get further into debt to the reserve banks through rediscounting. It was considered desirable to let out credit through the purchase of bills, thereby relieving the banks of direct obligations to the reserve banks on these bills, which are bought by the reserve banks outright.

How It Was Done

IT appeared, therefore, that the thing to do was to encourage the buying of bills by reserve banks, but to discourage further rediscounting. Thus the rate on bills had to be brought down, and so it was. But the rediscount rate had previously been lower than the bill rate, an unusual situation. So the rediscount rate was boosted up by a full 1 per cent, the first increase of that amount since 1920. Thus was the thing accomplished.

The third implement, the purchase of government securities in the open market, was not used, but it remains at hand and may be employed before the end of the year.

That is the story, but not the full story. Look more closely at the various factors, such as discounts, bills, government securities, gold supply, the fall demand for money, and the various money rates, as all these stood in late July and early August, before the new reserve policy was adopted. Consider these in round figures, instead of exact figures, for the sake of easy perspective.

Still Acquiring Gold

LOOK at discounts of all the reserve banks for member banks. In 1926 they ranged around $600,000,000. In 1927 they were around $400,000,000. By the middle of 1928 they had risen to the neighborhood of $1,000,000,000, the increase being largely due to the loss of $500,000,000 of gold between late 1927 and the middle of 1928. For a year they have stayed above $1,000,000,000, thus establishing a new situation. There is considerable discussion of whether the $1,000,000,000 of discounts can be reduced materially in the visible future, and one view quite generally held is that they cannot. It is probably not the intention of the reserve authorities to squeeze them down during the next six months by more than $100,000,000, or

perhaps not this much. This statement should be accompanied by many "if's" and "and's" which for the sake of brevity are omitted.

Look at the reserve banks' holdings of bills. They were less than $100,000,000 in July, having fallen from the high of around $500,000,000 in December last year. Look at the holdings of government securities bought in the open market. They were around $150,000,000, very low, practically bottom, having declined from around $250,000,000 early in the year.

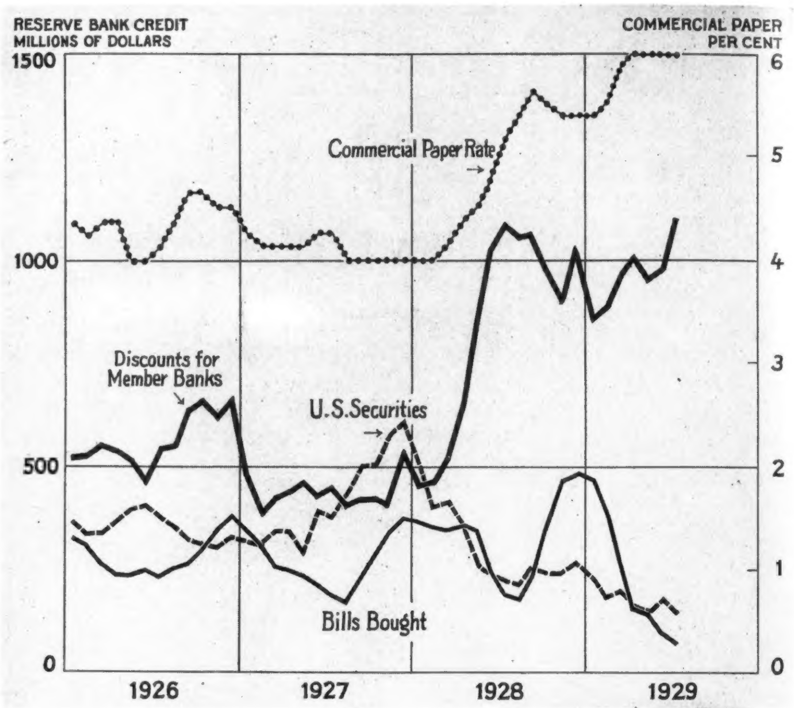
Look at gold stocks, around $4,350,000,000, having gone up by something like $225,000,000 since early in the year. We were still acquiring a little gold from month to month, but not enough to have much effect, and the indications were that there would be no great inpouring during the remainder of the year.

Look at the commercial paper rate. Nominally it runs along parallel with the volume of rediscounts, going higher when member banks are discounting heavily with reserve banks, and lower when discounts are decreasing. Within the past year it has shown a stubborn tendency to stay up despite some declines in discounts, the divergence being most unusual.

People Carry More Cash

THESE were the main facts in the credit situation early in August, so far as Federal reserve policy is concerned. The seasonal demand for credit starts in August. This demand is based largely on the demand for money—the sort of thing which one carries in the pocket—and is translated by banks into credit. People carry more cash at this season. Farmers need currency for crop moving, and much of it stays in circulation for several months. Then comes the Christmas season. Last year the demand for money rose by $400,000,000 from July to the end of the holidays in December. This year the money in circulation has already risen $100,000,000, due principally to demand for the new small currency. If this year's performance is to be like last year's, then an additional $300,000,000 of currency must be provided between August and the end of December.

The currency is provided through credit. Whence is this credit to come? If the Federal reserve were to do nothing, then credit would tighten, interest rates would go up. The Federal reserve is concerned with all interest rates, but primarily the commercial paper rate and other ordinary lending rates which "business" pays. It is also concerned with the call money rate because this tends to attract credit and gold from abroad. This country's best interests lie in not getting any more gold from Europe, according to the official attitude, partly because it would stimulate stock speculation which is considered already eliminated aplenty, and mainly because it would hurt Europe and our foreign trade relations. Less fear is felt over possible importations from such gold-heavy countries as Argentina.



Reserve Bank Credit and Commercial Paper Rate

Observe the high level of discounts since the middle of 1928 and the abnormally low levels of open market purchases of both bills and U. S. securities at the present time. Note also that the commercial paper rate up to the middle of 1928 fluctuated generally along with the rise or fall of discounts but that shortly after the middle of 1928 it rose while discounts were declining, thereby making an exception to the usual behavior of the rate

The Bill Gate Was Chosen

THUS it was essential to "ease" credit. Whether this means to make credit easier than it has been in the past, or whether it means to prevent credit from becoming tighter remains to be seen. There are some fairly good reasons for thinking that what was in the mind of Federal reserve authorities was actually to make credit somewhat easier than it had been.

The bill gate was chosen at the means of applying the easing influence. Obviously it was a choice between this and the purchase of government securities, for it was not considered good policy to let rediscounts rise. Bills and government securities represent the two open market means of credit control, and either is less spectacular in application than the rediscount method. At least this has been true in the past, although in the future open market operations may be watched more closely by the public. It seems quite possible that later in the year the reserve banks will begin buying government securities, but for the present this is a matter of guesswork.

One reason why the expansion of credit through bills was decided upon is probably that it was felt bills represented demands for credit by business. Bills represent actual business transactions, as distinguished from loans on securities. The distinction is controversial, of course.

A way to stimulate the offerings of bills to reserve system was to lower the buying rate on them at the reserve bank in New York, where the main bill market exists. To do this while leaving the rediscount rate at 5 per cent would have started the stock market on another bull movement when it was already bullish.

Only a Side Glance

THIS is the principal point at which consideration of the stock market entered Federal reserve considerations. Note that the stock market gets something like a side glance from the Federal reserve, and not the full front gaze. The new policy was not "aimed at the stock market," as so many commentators insist. The new policy was adopted more with thought of the position of the member banks in their relation to reserve banks, as is indicated above. In making the decision, the authorities probably thought of themselves as bankers for bankers rather than as regulators of the stock market or the public welfare. They thought of the stock market, but not as the central object in the financial landscape.

Furthermore, it is probably true that the Federal reserve officials were surprised that the stock market took their action as a great shock; they probably thought the market would accept the rate changes with less perturbation. Probably they intended that the tangible

(*Continued on page* 265)

The Texas Cotton Credit Plan

By E. B. STROUD, JR.

Broader Service in Marketing Texas Cotton Crop Is Rendered Under Special Plan Devised by Dallas Federal Reserve Bank. New Method Is Expected to Result in Banks Located in Texas Handling a Larger Volume of Cotton Financing for the State.

IT is an interesting fact that since the establishment of the Federal Reserve Bank of Dallas, Texas alone of the states or portions of states comprising the Eleventh Federal Reserve District has produced approximately 55,000,000 bales of cotton, all or practically all of which have been moved to the markets of the world and sold. This has required the extension of a tremendous volume of credit, the responsibility of which has rested, to the extent of their ability, upon the banks of this state.

It might be said that this business has required double financing, in that it has been necessary to finance both the production and marketing of each crop.

In so far as financing the production of the crop is concerned, the Federal Reserve Bank of Dallas has taken its proper place and has functioned in a direct manner. Cotton producers' notes, secured by chattel mortgages, have found their way in and out of the Federal reserve bank as and when the seasonal demands made it desirable or necessary for the member banks to call upon the Federal reserve bank for assistance.

A Broader Service

IN so far as financing the movement and marketing of the crop is concerned, the Federal Reserve Bank of Dallas was never called upon to take its full and proper place. It has rendered a very valuable assistance through rediscounting or loaning against eligible paper of member banks other than that arising from the movement and marketing of the cotton crop by extending loans against government securities and by purchasing acceptances and other eligible paper in the open market.

Until the latter part of 1928, however, it had not loaned directly to member banks to any appreciable extent, if at all, against the security of cotton in the bale. This was not the result of an unwillingness on the part of the Federal reserve bank to accept such security but because the borrower found it impractical to part with the warehouse receipts, bills of lading and other evidences of title to the collateral securing the loan.

More than a year ago the directors of the Federal Reserve Bank of Dallas set about to determine whether or not any plan could be devised whereby the Federal reserve bank might render a broader and more direct service in the movement and marketing of the cotton crop. There

Texas Did It

IN the midst of the discussion which has been going on over the need for improvement in methods of marketing farm products various sections of the country have gone to work and evolved specific new plans. This has been done in Texas in connection with financing of the movement of the cotton crop by the creation of simple machinery which can as easily be extended to cover grain or any other staple agricultural commodity. ***What has*** *been done in Texas can be* ***done elsewhere.***

being so many legal questions involved, the work of devising and preparing the plan was placed under the direction of the legal department. Several months were devoted to study of the many questions involved. Bankers from different sections of the state handling cotton under different conditions were advised with freely.

Lock Box Required

A MEMBER bank desiring to borrow under the plan designates three of its directors to act as trustees, all of whom may be active officers of the bank. A trust agreement has been prepared for execution by the trustees and the member bank. By the terms of this agreement the following general plan is set up:

The member bank creates a trust in all securities delivered to the trustees for the benefit of the Federal Reserve Bank of Dallas.

The trustees are required to maintain a lock box in the vaults of the member bank clearly marked "Federal Reserve Bank Trust." All securities delivered to them must be locked in this box and kept separate and apart from all other papers and securities at all times except as otherwise permitted by the terms of the trust agreement.

May Exchange Securities

IT has been recognized that it would be impractical to expect the trustees to personally handle the details of the numerous transactions arising in connection with the securities held in trust. Therefore, it has been provided in the trust agreement that upon any business day the trustees may intrust possession temporarily to an agent, provided—first, the agent's receipt is obtained when the securities are delivered to him, and, second, possession is resumed by the trustees upon the same business day. This agent must be employed by and under fidelity bond to the member bank and, of course, will usually be the employee of the member bank who customarily handles the cotton accounts of the bank.

In order for the plan to be practical, it was found necessary to give the trustees authority to permit exchanges and substitutions of the securities held by them. Obviously no real good would be accomplished by permitting the securities to remain at the location of the member bank unless those in possession might permit their use in such manner as to accomplish the purposes of having them at that location. Accordingly, authority has been given the trustees to exchange one form of security for another, as, for example, to convert bills of lading into warehouse receipts.

Likewise, they are given the right to exchange an evidence of title covering one bale or lot of cotton for an evidence of title covering an entirely different bale or lot, provided they obtain the equivalent of that which they surrender. They are permitted to surrender securities for their monetary value, it being incumbent upon them in such instances to immediately transmit the money received to the Federal Reserve Bank of Dallas for use as might have been agreed upon between the member bank and the Federal reserve bank or, in the absence of an agreement, for credit to a special collateral account. The trustees may permit the member bank's customer to attach the securities they hold to sight or demand drafts for their monetary value, to be forwarded by the trustees to the Federal reserve bank for collection

(*Continued on page* 278)

Railroad Finance Under Federal Regulation

By OLIVER WESSON

Control of Financial Activities of Rail Carriers Under the Transportation Act Believed to Have Developed Unlooked for Weaknesses. Modern Method of Holding Corporation Operation Complicates Supervision by Interstate Commerce Commission.

RAILROAD financing is manifestly and with fair success escaping from the rigid Federal control under which it was placed in 1920. The various detailed moves in the attempt, though formally described in newspaper reports, have had almost no comprehending interpretation, intrinsically interesting and important as they are.

Behind them lies the engaging story of the series of misconceptions of economic reality which were wrought into the Transportation Act of 1920, and the confusing problems its administration has put before one of the most important of Federal regulating bodies, the Interstate Commerce Commission.

It was the first notion of the Transportation Act that because railroading in 1920 was unprofitable but necessary, it would always be so. Hindsight enables it to be said that the return of carriers to private ownership, and the play of forces set loose by intelligent men seeking to better themselves and their institutions wrought the usual economic marvels.

DESPITE the apparent check suffered by the railroad consolidation movement through failure to obtain government approval it has been possible, this article discloses, for various plans for the linking up of rail lines to be consummated through the operation of investment companies whose activities are outside of the jurisdiction of the Interstate Commerce Commission. The development of this method of concentration by the carriers will have an important bearing upon values.

Embedded in the Law

IN nine years, though jealously supervised as to rates and methods, railroads as a whole have worked their way back first to a living earning rate, and next to a state of prosperity. Established technique of management, improving daily, is entitled to all the credit.

But embedded in the law is the notion that they are still mendicants of the government, whose earned wage is to be seized if it gets too large; that some of them are to be beaureucratically classed as "weak," and consolidated willy-nilly with stronger brothers; that the commerce commission is to have almost unlimited right to sway their ownership; and that it is in the meantime to keep up its usual highly technical duty.

Pitted in a Contest

WHEN Congress got through with drafting the transportation law, the business in this case, it had effectually pitted a government commission in a contest with some of the most brilliant financial minds of the age. As to operation and rates, the management of railroads as a class has sought no quarrel with the commission, and has sought no independence except in the increasing number of instances where the government body has proven itself incapable to adjust conditions.

There have been those instances. In the Lake Cargo rate cases, after ruling twice in diametrically opposing directions, the courts and the managers had to come in and settle them because the commission simply could not. But in the field of ownership, in the field of merger, in the field of re-capture, the leadership of American railroads has made something of a rebellion from the extended bureau powers of the Interstate Commerce Commission. The drama has not yet been played out; but all of its significant points are clearly disclosed.

First in the field were the Van Sweringen Brothers of Cleveland. They and their lawyers, reading the law, tried to consolidate a group of railroads in open and unhesitant fashion, apparently in sincere belief that such action meant public service as well as profits. They learned some new lessons about delay and detail. Finally the commission ruled that the Van Sweringens could not proceed with linking the Nickel Plate, the Erie, the Chesapeake & Ohio, and the Pere Marquette. Then the Cleveland duo transferred the contest to a plane where the commission has found it increasingly difficult to follow.

New Van Sweringen tactics in essence involved use of the holding investment corporation device, first brought into the field by the late J. J. Hill in the Northern Securities instance. They had always known of its possibilities, as every greater business man has, and had utilized it from the first in railroad handling. On a scheme of efficient railroad operation, of good public service, and sound finance, they superimposed a deft amalgamation of ownerships, passing through a complex series of corporate identities, the Alleghany corporation being most in the public eye at the moment. There is no room here for financial analysis, and the tracing out of the intricate relationships between the Alleghany, the Chesapeake, the Virginia Transportation, and the parent of all, the Vaness Corporation. With growing public confidence supporting them, with able legal advice, during two or three years the Van Sweringens gave the commission some hard but sufficient lessons in the swift acquirement, transfer, and association of railroad equities.

By a Quick Market Dash

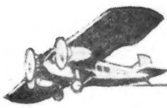
THESE holding-investment concerns buy, sell and trade railroads or pieces of railroads, borrow and pay debts, buy and sell pieces of other holding corporations, and do it nonchalantly and overnight. Merely the very speed of their performances is revolutionary to officialdom opening as it does a vista upon the electric decision which marks executive capacity of the higher grades in important action. The corporations not being railroads in any sense, their manoeuvers are clearly outside the purview of the commerce and transportation acts, which the commission administers.

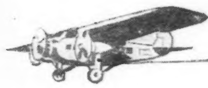
(*Continued on page* 275)

THE NATION'S BANKERS

attending the Annual Convention are cordially invited

to LOS ANGELES COUNTY



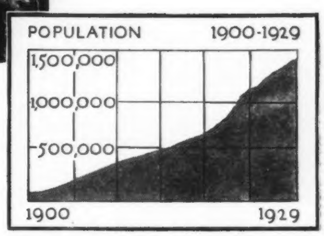


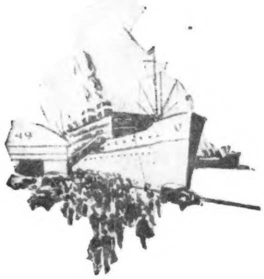
50%

of the Pacific Coast States' added

POPULATION

during the last 8 years, have settled here!





Population density has brought to Los Angeles County more factories, producing over double the output, than the next largest Pacific Coast County. With 40% of Coast population in Southern California, local industries enjoy a large home market, and economical distribution by truck, rail or water to Western States and foreign countries.

New industries will find: Adequate, contented labor; low building costs; good factory sites; low-cost power, natural gas and oil fuel and abundant water. Airplane mail and commercial service is more than one-third of the national daily total.

LOS ANGELES CHAMBER OF COMMERCE

INDUSTRIAL LOS ANGELES COUNTY

THE Union Trust Company of Detroit bought more than good design

JOHNS-MANVILLE Sound-absorbing Treatment has given the fine, new banking quarters of the Union Trust Company a dignified atmosphere worthy of its splendid design and decoration. Thanks to the J-M method, excessive noise, with its endless irritations, is barred from their banking rooms. Yet this has been accomplished without hampering the decorator's plans in the slightest degree.

The banking room shown, for example, has a ceiling finished in silver-leaf with vividly colored border decorations. All of this decorative treatment was applied without appreciably impairing the efficiency of the sound-absorbing material.

To scores of banks, large and small, Johns-Manville has brought quiet and comfort unimagined by those who have never investigated the marvelous science of sound control as practiced by Johns-Manville, who pioneered in this work.

We have published a special booklet on the control of excessive noise in banks. In it we describe the ease with which Johns-Manville trained experts can improve the working conditions and general atmosphere of any bank by doing away with excessive noise. We will gladly send this book to any bank official or architect. We also welcome opportunities for personal discussion of sound control methods in banks.

Johns-Manville
SOUND CONTROL AND OFFICE-QUIETING TREATMENT

JM

The splendid modernistic design of this banking room of the Union Trust Company of Detroit was unaffected by the use of Johns-Manville Office-quieting Treatment. The silver-leaf finish was applied right over J-M Acoustical Materials.

JOHNS-MANVILLE CORPORATION
New York Chicago Cleveland San Francisco Toronto
(Branches in all large cities)

Please send me a copy of your "Sound Control Treatment for Banks."

Name..

Address..

AC—90—9

Progress in State Bank Supervision

By FRANK W. SIMMONDS
Deputy Manager, American Bankers Association

Nation-Wide Survey Discloses States are Awakening to Value of Efficient Bank Supervision by Improvement of Conditions Under which Commissioners Must Work. Definite Trends Shown Toward Better Salaries, More Power and Fewer Restrictions.

EVERY phase of banking has been undergoing a series of changes in the last few years. Mergers and consolidation have altered the externals of the banking structure but step by step with these and other new developments there have been continual improvements in what might be called the internals of banking in the direction of greater efficiency and better management.

In this movement toward the best in banking no single element stands out more sharply than the progress that has been made in the field of state supervision. Taking the country as a whole five years have worked wonders upon the conditions under which the state commissioner functions. One by one the states are coming to recognize the primary importance of strong and competent banking departments.

Perfection, of course, has by no means been attained. Much remains to be done to give to the arm of the state bank commissioner its maximum strength. But the record of the last five years shows unmistakably that the goal is in sight.

Encouraging Signs

IN 1925 a nation-wide survey was made of the set-up and working machinery of the various state banking departments. A similar survey was made this year and is nearing completion. Replies to a questionnaire sent to each state have not been received from all state commissioners, but sufficient information has already been assembled to reveal the highlights of what is taking place.

One of the most encouraging signs is the satisfaction expressed by a number of commissioners with their state banking laws. During the last half-decade a majority of the states have revised their banking laws and the results appear to speak for themselves. There has been some increase in the level of salaries paid the commissioners and there has been a noticeable tendency among the states to take bank supervision out of the realm of partisan politics.

Meeting a Demand

NOT all the improvements reported are general in the states which have begun to raise the standard of bank supervision. Some of the states have made a start in one direction, others in another. Nevertheless the demand for increasing the effectiveness of banking departments to the ultimate degree is beginning to be met.

In thirty-four states the bank commissioner is now appointed by the governor, and while usually appointed for a specific term, in most cases in reality he still holds office during the pleasure of the governor. These figures are on the basis of the replies to the questionnaire already received.

In Florida and Illinois the bank commissioner is elected at general elections. In Colorado the commissioner is appointed from eligible lists of the civil service. In Mississippi the commissioner is selected by the banks and then appointed by the governor. In Tennessee the bankers association elects a list of five names from which the governor appoints one as superintendent of banks. In Virginia the commissioner is appointed by the State Corporation Commission which has ultimate supervision of all corporations in the state, including banks. In Oregon the commissioner is appointed by the State Banking Board.

The Range of Salaries

TERMS of office have been lengthened in several of the states during the last five years, although there is still room for considerable progress in that direction. In seven states the term of office is two years. In three states it is three years. In twenty-four states it is four years. The term of office of the bank commissioner in Wisconsin is five years and in Minnesota, Nebraska and New Hampshire it is six years. In California, Missouri and Washington the commissioner holds office "at the pleasure of the governor" and in Colorado and Virginia the term is indefinite.

In the range of salaries there has been a perceptible increase. While the advance has not been as general as desired it is, nevertheless, evident that the states are beginning to recognize the necessity for adequate salaries.

From the questionnaire it was found that salaries now range from $3,600 to $12,000 whereas the range five years ago was from $3,000 to $10,000. Five years ago most states paid their commissioners around $4,000, now most of them pay around $5,000. This amount is certainly inadequate to a position of such heavy responsibility but does, nevertheless, reflect a trend toward remedying the situation.

Two of the states, Mississippi and New York, now pay their bank commissioner $12,000 a year. Four of the states, California, Illinois, Michigan and Pennsylvania, pay $10,000. Two states pay $3,600; nine states pay between $4,000 and $5,000; thirteen states pay $5,000; nine states pay $6,000, and two states, Nebraska and Ohio, pay $7,500.

Less Outside Duty

SIGNS of an awakening to the necessity of making actual banking experience a qualification for the office of bank commissioner seem to be evident. While eleven states reported that no banking experience was necessary to qualify for the post, twenty-three require experience of this sort, ranging from three to five years. Other states make requirements as to age, length of residence in the state and in some cases provide that the commissioner must not be an officer or stockholder of any bank under his jurisdiction.

Rapid Steps

FIVE years ago the first survey of the conditions obtaining in the banking departments of the various states was made and the need for improvements in the laws of the states was clearly demonstrated. This year a similar survey has been made and on the basis of the data already in hand it is evident that through the revision of statutes in many states rapid steps are being taken in the right direction although much remains to be done to enable the bank commissioner to function with the highest degree of efficiency.

Although the office of the bank commissioner in most states is still burdened with a multiplicity of duties the tendency seems to be to concentrate most of them into what might properly be considered the banking field. Fewer purely extraneous duties appear than was the case five years ago.

A Healthy Sign

INQUIRY elicited that there are now ten states that have banking boards, with powers ranging from acting in an advisory capacity to full power over all state banks to issue and reject charters.

A healthy sign of the times is the number of reports concerning examiners which disclose that the commissioners now have full power of appointment or that these appointments are made from civil service lists. Complaints are still being made of political pressure being brought to bear in the appointment of examiners but the contrary seems to be true in a growing number of states.

Liquidating Closed Banks

After all, the most capable commissioner could not successfully perform his duties unless he is able to command the services of efficient and honest examiners, for they are ears, eyes and hands to him—and for him to attempt to run his office without their aid and proper reports would be like a blind man running a race. The effectiveness of the state banking department and the safety of the depositors is so dependent on their work that the method of their appointment, their fitness for the work, the tenure of office and compensation are all highly important.

Another important development is the very general adoption by the states of the theory that the bank commissioner should have power to liquidate closed banks as distinguishable from liquidation by a receiver appointed by court. There is also a very general endorsement of this mode of liquidation among the commissioners and bankers on the grounds that it is more expeditious and far less expensive.

Elements of Strength

SOME of the chief elements of the strength of statutory provisions that have contributed toward developing efficiency of supervision in recent years are revealed in the following quotations from reports from various states:

"The requirement of good general banking experience and the selection of well qualified deputies who are willing and able to use their best judgment in handling difficult situations. It is necessary that sufficient power be given the head of the department to exercise discretion and judgment in approval of the policies of the institutions."

"The legislation has treated this department very fairly in granting appropriations sufficiently large to care for our needs. The state board of finance and control has authorized larger salaries for the commissioner and his assistants and examiners during recent years. Our department has been especially free from the interference of partisan politics."

Banking Board Is Helpful

"APPOINTMENT of superintendent instead of election by popular vote. Liquidation of closed banks through department of banking rather than court receivers. Power in superintendent to select assistants, examiners, etc. Right to demand removal from office of officers or employees of banks under supervision of superintendent when the best interests of the bank may so require. Right of the superintendent to take charge of a bank and liquidate its affairs when it may be in the interest of the depositors to do so.

"Six-year term for the bank commissioner. Transfer from the governor to the bank commissioner of the power to appoint and discharge examiners. Salaries and traveling expenses of bank commissioner, examiners and helpers all paid from funds raised by assessment on state banks. The amount of the assessment is fixed by the commissioner and the secretary of the department of trade and commerce, thus freeing the supervision from legislative supervision.

"The Legislature in 1925 and subsequent amendments to the law has given the superintendent of banks broad power. Numerous specific provisions curtailing distribution of earnings, carrying of assets at actual cash market value, removal of bank officers, levying of assessments and annual charge off required of other real estate. The present banking board is extremely helpful and cooperative."

Elements of Weakness

SOME of the principal elements of weakness in various state statutory provisions relative to the office of bank commissioner are disclosed in the following quotations from the reports:

"Banks should be required by statute to carry a secondary reserve. In order to maintain a state of solvency at all times, some provision should be made for requiring banks to remove objectionable assets or for the setting up of a reserve against such assets. In many cases it is very hard for an examiner to determine a specific loss, although he knows that the liquidation of the asset in question is very doubtful."

"The principal elements of weakness consists of the lack of any specific restrictions which the department has over the establishment of new banks, and the difficulty of obtaining compensation which would make it possible to obtain and hold competent and qualified examiners. Some improvement in the latter situation has been effected, however."

A Preferred Condition

"APPOINTMENT should be non-political and term definite. An advisory board would be helpful. Greater discretionary power should be granted. Increased capital and surplus requirements needed. Reduced loan limit advisable."

"Salaries have not been increased to keep step with increases in other walks of life and it is very difficult to get qualified examiners."

"Believe that the size of banking resources justified the setting up of an independent office answerable only to the governor as a preferred condition, and that the term of the commissioner should be either five years or during the pleasure of the appointment. The salary should be enough to be attractive to bankers of commensurate attainments. He should be given power to appoint his own staff as vacancies occur, fix salaries and dismiss appointees for cause and power to wind up failed banks and grant or deny authority to do business."

Various Proposals

UNDER the heading of "other suggestions" various proposals were forthcoming that throw considerable light upon various angles of the problem of state bank supervision. Quotations from some of the reports follow:

"Believe a banking board composed of five good bankers to act in an advisory capacity with the bank commissioner would be very helpful."

"The merger, conversion or consolidation is a matter of importance at the present time and should only be permitted after due investigation of existing conditions which in every case should exclude all questionable assets from the reorganization."

Would Welcome Uniformity

"SALARIES of senior examiners, chief examiner and deputy commissioner should be on a graduating scale equal to the salaries of vice-presidents and treasurers of large banking institutions. This will have a greater tendency to hold permanently the men filling these positions, for the reason that experience in this work is an important qualification."

"Closer supervision and regulation of building and loan associations, withholding powers that are more liberal than are extended to banking associations might be provided for."

"Would welcome the passage of reasonably uniform state banking laws in the United States and would welcome closer cooperation between the national and state banking authorities in the way of conferences and simultaneous examinations.

"The administration of banks in liquidation may be handled at a less expense and more diligently when it is not necessary constantly to refer matters to the courts, which in many cases are extremely slow in the determination of important matters.

"Furtherance of an educational program for bank officials such as the Mississippi Valley Conference on commercial bank management, standardization and uniform banking laws, both state and national, elimination of unprofitable banks and incompetent bankers."

The Chain Store Side

By R. W. LYONS
Executive Secretary, National Chain Store Association

Adequate Charges for Services Rendered by Banks Based Upon Cost Plus a Reasonable Profit Are Suggested as Best Method of Solving Problem of Local Chain Store Accounts. Too Rapid Withdrawal of Deposits Preventing Fair Return Called Wrong.

Room for Both

CHAIN store accounts, especially in the smaller communities, have come in for more discussion of late than probably any other class. What is presented here is an exposition of the position of the chain store which sees in the ever changing economic scheme a place for both the small banks and the new system of retail distribution as profit making agencies, both serving the public. The article gives a picture of the "other fellow's" point of view.

IN the midst of the growing discussion about chain stores, the question has been squarely raised as to whether they are conducting their commercial banking relations upon a sound and intelligent basis.

On the one hand we find bankers openly criticizing chain stores and on the other we find them equally aggressive in soliciting chain store accounts.

Take for example the charge that the chain stores are "drying up the springs that fertilize local business" by reason of their rapid withdrawal of local deposits. This criticism implies that such rapid withdrawals have produced a condition in which an adequate supply of capital and credit is not available to local enterprises throughout the nation.

Chain Store Influence

SUCH an implication is contrary to the recent findings of the President's Conference on Unemployment. In Volume II of the report of this conference is a chapter devoted to "Money and Credit and Their Effect on Business," in which examination is made of the availability of credit and capital for business use during the period from 1922 to 1928, as compared with previous periods. Inasmuch as this six year period has witnessed much of the rapid expansion of chain stores, it seems fair to assume that the influence of chain stores would be adequately reflected by the fundamental conditions during this period.

It is interesting to note in this connection that: "Rates for long time money show an almost continuous downward trend." It is also interesting to note that rates on commercial paper during this period show a downward trend and, to quote from the report: "It seems probable that rates charged bank customers are represented more nearly by open market commercial paper rates," which were lower from 1922 to 1928 inclusive than they were from 1890 to 1913.

The Credit Supply

HAVING in mind that rates have, with minor exceptions, been steady and low during this six year period, it remains to determine whether there has been an adequate supply of funds available for loans. On page 664 of the conference report we find the following information in this connection: "The data as to interest rates have already been given and they indicate that the supply of bank credit was well able to take care of the demand."

Even the most severe in their criticism of chain stores will hardly suggest that the latter are responsible for the phenomenal money and credit situation which has prevailed during a substantial part of 1929, and, were it possible to sustain such a contention, it would not even then seem fair to charge the chain stores of America with responsibility for fundamental changes or problems in the field of banking.

It seems fair to assume that banks are no exception to the rule that "everlasting change is the only permanent thing in life." The President's conference report makes some observations of interest in this connection. Referring again to page 664, we find that: "Business for this period has been financed less by borrowing from banks and more by borrowing in the capital market through issue of securities . . . Industrial requirements for bank loans have also been lessened by the prevailing custom of reducing inventories to the lowest possible levels."

They View With Alarm

WITH these and other facts in mind, it is not surprising that the chain store merchant assumes his contribution to the modern banking problem to be only fractional.

In order really to understand what the chain store merchant thinks about his banking relations, it is first necessary to understand what it is he considers as his function in life. After all, what is a chain store? It is merely one instrumentality for retailing. Most economists will agree that "the function of retailing is the performance of a public service by the efficient distribution of merchandise to consumers." Most chain store merchants accept this definition.

It is not to be wondered at, therefore, that they view with alarm any business circumstance or practice which penalizes or retards their efficiency. It is well recognized that the chain store method of distribution has presented a new and complex problem to manufacturers, wholesalers and retailers, as well as to banks.

Perhaps nowhere is the problem greater than in the field of wholesaling. It has been charged that the chain stores are driving the wholesalers out of existence. It would be a more adequate statement of the truth to say that the competitive struggle to eliminate waste in distribution has developed a new and better relationship between the commonly accepted functions of wholesaling and retailing. A simple illustration of this fact is possible.

Carrying Charges Contrasted

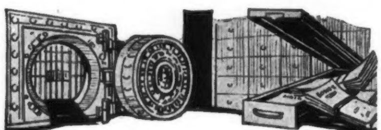
THE Harvard Bureau of Business Research has determined that the average turnover in the wholesale dry goods field is 3.4 times per year, which means that one turnover is accomplished each 107 days. The same authority has also determined that the average turnover of the average department store (which must get its supply of merchandise from the wholesale dry goods house) is 2.1 times per year. This means that a complete turnover is accomplished every 174 days. Contrast the above figures with those which I have recently taken from one of the leading chains of department stores. This chain of department stores

(Continued on page 276)

Acceptances for Short Term Investments

BY ROBERT H. BEAN
Executive Secretary, American Acceptance Council

Bankers' Bills Represent a Practically Untouched Field for Investment by Interior Institutions to Replace Vanishing Supply of Commercial Paper. Country Banks Hold Only About Twelve Per Cent of the Total Volume Outstanding at the Present Time.



Now or Later

WHAT the acceptance means to the secondary reserve of the country bank is described in this article which also raises the question as to whether this type of investment will come into its own now or must wait until call money returns to normal and the shrinkage in commercial paper and government short term obligations makes it the only alternative. Bankers' bills have many features not generally recognized.

LESS than 150 large outstanding banks and bankers in fifteen principal cities now create a total of more than $7,000,000,000 in bankers' acceptances annually, and during the past two years these same banks have had an average of over $1,000,000,000 in outstanding acceptances at all times.

These acceptances, or "bills" as they are commonly called, finance the movement of 50 per cent of the total import and export trade of the United States, a large part of its domestic trade and a substantial volume of the business based on warehoused commodities.

They are now definitely fixed in the banking practice of this country as the most economical method of credit granting and since 1914 have been instrumental in carrying the dollar to every country in the world.

Drawn in Dollars

THE volume of acceptances now outstanding is nearly four times as great as that of commercial paper, which has for many years been relied upon by banks as the proper investment for surplus or secondary reserve funds.

The modern type of "commercial paper" is the bankers' acceptance and it is endowed with many virtues of which the old form of promissory note commercial paper was not possessed.

It is drawn by a high rated merchant, importer, exporter or corporation. It is drawn in dollars which gives it standing in world markets. It arises out of a transaction in staple goods of a self liquidating character.

Assurance of Payment

THESE factors in themselves constitute strength in any credit instrument, but to a bill, so drawn and secured, there is added the acceptance of a strong bank or banker, which gives the assurance that it will be paid when due regardless of what may happen to the merchandise that has been financed or any situation which may arise between seller and buyer.

The record of American bankers' dollar acceptances for fifteen years, during which time upwards of $75,000,000,000 of bills have been handled, does not show an instance wherein an investor has lost a dollar. There is no type of investment paper, excepting naturally the obligations of the government, that is as safe and as liquid as a bankers' acceptance.

With these brief facts before us, concerning the creation of bankers' acceptances and their attractive investment features, it is pertinent to inquire why there is such a limited open market demand for bills, particularly from interior country banks.

Sponsors of Purchased Paper

WHILE, as has been stated, about 150 banks create for the investment market over $7,000,000,000 in acceptances a year, there are 25,000 banks throughout the country presumably seeking safe and liquid investments, that rarely ever buy a bill.

They may not have the opportunity to open acceptance credits and so create their own bills. Perhaps it is just as well that the comparatively smaller institutions should not attempt to compete with the large banks in the financial centers of the country in the creation of this kind of business. They have, however, funds that must be invested, remain protected, and be readily available and the acceptance market is open to them to secure these advantages.

Not many years ago the dealer supplied the country bankers with commercial paper as an outlet for their surplus funds. Generally speaking the commercial paper broker and a correspondent city bank were the sponsors of the purchased paper and the country banker found it a safe and convenient method.

Passing Out of the Field

SINCE 1919, however, notwithstanding the enormous commercial development of the United States, the volume of commercial paper has declined from over $1,000,000,000 to less than $300,000,000, a part of which is not commercial paper in its truest sense.

The explanation of this change in the methods of business financing is that merchants are turning to other sources for their seasonal domestic requirements.

Direct bank loans, short term note and bond issues and bankers' acceptances, have largely taken the place of commercial paper, which now appears to be passing out of the investment field.

But, we ask, what is the country banker buying in place of the commercial paper that was his investment reliance a few years ago? The natural assumption would be that he would turn to the much stronger and more liquid bankers' acceptance.

One of Three Answers

TO a very limited extent this is true. There are notable cases of banks that now carry a substantial volume of purchased bills at all times but where there is one of this kind there are a hundred

(*Continued on page* 277)

Farm Aid on the Installment Plan

By C. W. WILKINS
Vice President, Agricultural Credit Corporation of Minneapolis, Minnesota

Long Term Installment Loans to Finance Livestock Purchases Can Be Made Safely and Income from Security Will Liquidate the Indebtedness According to Experience of a Northwestern Credit Corporation. System Said to Benefit Bank Farm Loans

THE common topic of the hour, political or otherwise, in connection with the agricultural situation has been either stabilization corporations, debenture plan, or tariff, but little discussion has been heard of agricultural credit. The stock phrase is that agriculture has had too much credit.

Many go so far as to say that the financial difficulties that the agricultural sections have gone through were due to an over and unwise extension of this credit. This may be partially true or it may not be, but regardless of the past it is maintained that what the farmer needs most along financial lines today is a different system of credit.

The farmer's land indebtedness is well taken care of through the amortized loan offered by the Federal Land Banks and Joint Stock Land Banks and some of the life insurance companies, extending over a period of thirty-six years. He does not have to worry about what credit conditions are going to be at the maturity of the loan as it never comes due. He can concentrate his efforts on making the farm pay the installments, make further improvements and build it up to a higher state of production.

Not Always Adequate

THE only other form of credit is a short time credit furnished either through the Intermediate Credit Banks or by the local banks. Intermediate credit companies that discount their paper with the Federal Intermediate Credit Banks are a step forward toward the stabilization of the farmer's short time credit. Loans obtained through these sources are not affected by the tightening of money, although the rate of interest may be advanced. However, their plan is not always adequate for the farmer with limited capital, desiring to equip himself with livestock, because of the restricted amount loaned on the chattel security on which the credit is based. Such a loan is satisfactory where the farmer has sufficient cattle, hogs, or sheep to margin it, but does not meet with the requirements of many farmers desiring to change from small grain to diversified farming.

The usual expression of bankers—and I have been in the country banking business all my life—is that they take care of their customers and grant credit to all deserving farmers for their legitimate needs. It is true that country banks are carrying the largest portion of their loans in farmers' paper, a percentage of which, no matter how carefully the bank operates, has a tendency to become frozen. The majority of it has a short maturity. It is necessary that this paper be of a short maturity and liquid to meet the possible withdrawal of deposits that are payable on the demand of the depositor. These short time notes are satisfactory for accommodation purposes to pay overhead expenses, anticipating the marketing of the farmer's products.

Filling a Void

THIS article discloses how a void in the agricultural credit situation represented by the need for long term loans on farm products has been filled in one section of the country. It raises the question of why a farmer who can buy an automobile or a radio on the deferred payment plan cannot logically be permitted to buy his cows and sheep in the same way. Minnesota seems to have found the answer. There seems to be in the method devised a real approach to practical farm aid.

"The Little Red Hen"

HOWEVER, the agricultural cycle is too long for this short time credit that is available if it is to be used as operating capital. What agricultural operation can be completed before sixty days or even six months paper becomes due? Hogs and sheep produce more rapidly than most other farm animals, yet almost a year elapses from the buying of the sow and ewe until her product is on the market, with the exception of the wool crop from the ewe, and that takes from six to eight months.

Other farm livestock practices of good standing have turnovers of only once in from two to four years. Then when tight money appears the farmer must sell his livestock in order to meet his called obligation, too often in a half finished condition and on a glutted market. The banker is not to be criticized for this situation; necessity and the system demand it.

The safest territory in which to grant agricultural credit is where the farms are small and the farmer diversifies; where the cream, veal calf, hog, wool, lamb, fruit, and last but not least "the little red hen" are the chief sources of income.

Cropped Every Acre

THE single crop farmer—the one who puts all his labor and thought into one enterprise, such as wheat, potatoes, fruit, hay, oats, or even corn, hogs, cattle or sheep—is the one who suffers from failures or violent price fluctuations. Even at this time when so much is being heard of the "farmer's dollar" not buying its share of commodities that he has to purchase, an analysis reveals some surprises, as it usually does when dealing with averages. It shows in general that the diversified farmer, growing his cash crops in rotation with feed crops, marketing the latter on the hoof in the form of butter, pork, poultry, beef, wool or mutton, is in a very favorable economic situation. In the spring wheat growing states there are too many single crop farmers. However, giant strides are being made by them in working out their salvation through changing their program so that their income sources will be more diversified.

I want to relate the experience of the Agricultural Credit Corporation, of Minneapolis, in furnishing nearly 10,000 farmers in the spring wheat growing section with a longer credit, payable in installments, to assist them to change their program.

During the war, both from a patriotic standpoint in responding to the appeal of the government to "Grow More Wheat," and from a profitable standpoint as prices were good, the farmers cropped every available acre. Credit was freely granted to them for that

purpose. As a result, when the price depression came, together with a series of poor crops, thousands found themselves over-extended and in a critical financial condition. Further, the farmer had confined his efforts too largely to small grains. He was unable to secure capital for additional livestock or equipment to handle it. A serious situation confronted the banker, business man, and farmer alike. This situation not only affected the Northwest, but was keenly felt in the industrial East. No part or section of this country can stand alone, and when the Northwest farmer is affected, it reverts seriously to the industries of the East and vice versa. An emergency existed that no government agencies under their restrictive laws of operations were able to meet.

Made Foundation Loans

IN an endeavor to alleviate this situation, a bill was introduced in Congress in the winter of 1923 and 1924, known as the Norbeck-Burtness Bill. The substance of this bill was that the farmer was to be supplied by the government with a long term credit for the purchase of livestock. Although the bill met with the approval of President Coolidge and the Administration, it was killed in Congress. Believing that the theory was sound, President Coolidge, at the suggestion of Mr. Hoover, then Secretary of Commerce, called a number of the business leaders to Washington to take such steps as might be considered practicable in bringing about a better balance to our agriculture.

It was suggested that the industries, railroads, banks, and insurance companies subscribe for $10,000,000 of the bonds of a corporation to carry on such a work. The suggestion was promptly complied with and the Agricultural Credit Corporation was launched in February, 1924. Only $6,000,000 of the $10,000,000 subscribed was ever called. This came from 434 individual subscriptions, ranging from a few hundred dollars to several hundred thousand.

In order to stabilize conditions in the Ninth Federal Reserve District, the first six months of the corporation's activities were devoted mainly to making loans to banks, based principally on their slow and frozen assets. Loans of $5,700,000 were made to or for the indirect benefit of 236 banks in five states. With the good crops of 1924 this work was discontinued and its activities confined to loaning direct to the farmer.

The directors of the corporation had no precedent to follow in working out a plan. It was concluded that if some aid could be given the farmer through loans for foundation livestock, a forward step would be taken in assisting him to work out his difficulties—such a loan to draw a low rate of interest and to be paid on the installment plan from the income of the animals. It is only through individual effort that any man can ultimately solve his own problem, whether he be an eastern manufacturer or a Northwest farmer—assisted though he may be.

THE following plan was adopted which has been carried out with little change. A loan not to exceed $1,000 is made to any farmer showing a satisfactory financial statement. This loan is due in three years and payable on the installment plan, 30 per cent the first year, 30 per cent the second year, and 40 per cent the third year, with interest at the rate of 6 per cent per annum on the unpaid balance thereof. A chattel mortgage is taken on the animals purchased, and in some instances additional security is required, dependent on the financial showing of the applicant and the amount of cash paid down on the purchase.

It is required that a committee be organized in every community that is interested in obtaining loans. This committee usually consists of a representative farmer, banker, and merchant, one of whom, generally the banker, acts as secretary and carries on the correspondence. In addition, where there are county agents, they cooperate closely with the committee and in many instances they have even acted as secretary for the whole county in order that their territory might secure the necessary results. All applicants must be recommended by the committee but the committee does not guarantee the loan.

When the application is approved by the home office, either the cattle or sheep are purchased and shipped to the farmer, or if the animals are secured locally the local secretary completes the transaction. This work is not carried on without considerable individual work and solicitation by the committee. As a general thing, they have been very conservative and very rarely do they recommend an applicant who has not been able to work out. The communities which have received the most benefit are those where the committees have been most energetic.

Suspicious at First

LIVESTOCK purchased by the corporation is sold at actual cost plus a nominal charge that includes the expense of purchasing and also includes insurance against fire, lightning, windstorm and tornado for three years. If the farmer can secure satisfactory animals locally the corporation is glad to finance him for the purchase on the regular terms with a small financing charge, which includes insurance before mentioned. However, precaution is taken in financing animals purchased locally as no good results can be obtained if the quality of the animals in the community is not built up.

The corporation is not operated for profit. It has been satisfied with a small return on the investment and convinced that improved conditions would bring increased revenue to the Northwest that would repay many times the supporters.

At first the program was received with some suspicion by the farmer, local banker and business man in the country. However, after it had been in operation six months to a year and it was discovered that the farmer could easily repay the loan from the income from the wool, lambs and cream and show a fine profit in addition, applications came to the office at a greatly accelerated rate. These applications have continued to come in until the funds made available annually by the directors have been exhausted. The program has met with a success which, from the standpoint of the borrower and the lending organization, has been very gratifying.

The accompanying statement shows the operations of the corporation from July, 1924 to June 1, 1929.

Saved by Sheep

THE corporation has confined its livestock operations to the states of North and South Dakota, Montana, northern half of Minnesota and two counties in the northern peninsula of Michigan. Loans have been made in approximately 1000 different communities in this territory.

A sheep buyer is maintained who goes as early as February into the western range sheep states and makes contracts for part of the sheep needed for the season. Before the first of May this year the corporation had over 42,000 sheep under contract for delivery to the farmers of Minnesota and the Dakotas during the summer and fall. By thus purchasing and shipping in large quan-

(*Continued on page* 288)

Sheep:	No. Farmers	No. Animals	Total Amount Loaned	Repayments	Net Amount Loans in Force
Wisconsin	12	256	$2,719.00	$2,529.10	$189.90
Michigan	4	89	937.44	....	937.44
Minnesota	1,021	34,950	385,879.19	190,769.83	195,109.36
Montana	220	18,960	171,362.15	95,739.96	75,622.19
North Dakota	3,377	172,799	1,841,507.98	960,092.30	881,415.68
South Dakota	481	30,484	329,787.72	163,085.67	166,702.05
Total	5,115	257,538	$2,732,193.48	$1,412,216.86	$1,319,976.62
Cattle:					
Michigan	28	147	$16,844.40	$4,233.37	$12,611.03
Minnesota	1,355	6,018	519,485.72	282,960.36	236,525.36
Montana	623	3,876	345,911.15	206,109.98	139,801.17
North Dakota	2,059	8,626	707,617.93	449,730.73	257,887.20
South Dakota	568	3,242	299,085.82	161,177.33	137,908.49
Total	4,633	21,909	$1,888,945.02	$1,104,211.77	$784,733.25
Boys' and girls' club loans, etc.			$35,879.45	$20,160.49	$15,718.96

Net Amount of Livestock Loans made to 9,748 farmers	$4,657,017.95
Repayments	2,536,589.12
Net Amount of Livestock Loans in force June 1, 1929	$2,120,428.83

"...And Now Those Accounts Are Making Money For Us!"

BEFORE you throw out so-called "unprofitable" accounts, be sure you've done everything you can to cut the cost of handling them.

Realizing the need everywhere for a more efficient method of endorsing checks, the American Perforator Co., manufacturer of check cancelling machines since 1910, has now perfected a check endorsing machine which enables the adding machine operator to *endorse checks at the same time he lists them.*

During the past six months the new American Endorser has been in use in some of the largest banks in the country—and in some of the smallest. And everywhere bankers find that it not only eliminates the labor of hand-stamping, but actually *speeds the listing*. THE ADDING MACHINE OPERATOR DOES TWO JOBS MORE QUICKLY THAN HE FORMERLY DID ONE.

Instead of turning the checks *completely* over as he lists them, and stopping every so often to stack the pile, he simply turns them *half way* over and *drops* them—and the Endorser does the rest, automatically stacking the endorsed checks in the same order they are listed.

Banks are finding that this one saving alone often spells the difference between profit and loss on a number of their accounts.

If you have not done so already, adopt a general endorsement ("Pay to Any Bank or Banker") good for both clearings and transit, and endorse as you list—with an American. Besides the saving in labor, you will get cleaner, clearer endorsements, every check will be endorsed—no "missed" checks, and you will be able to work right up to the last minute for clearings and transit.

It's the modern way, the safe way, the money-making way. At a cost of but 10c per day (based on the demonstrated life of the machine) you will save at the very least an hour's labor per day—*even if your bank is among the very smallest.*

Whatever the facts about your bank may be, get the facts about the new American Endorser. The coupon below will bring them to you.

Cut Check Cancelling Expense, Too—

Pins and clips concealed in checks too often dull, bend or break perforator needles. American needles are 55% stronger than ordinary perforating machine needles, yet in addition to this additional strength *any clerk can easily and quickly install new American needles in the American No. 22 or larger models.*

Don't be handicapped by having to revert to old-fashioned methods of hand-cancellation every so often while your perforating machine is at the factory for repairs.

If your machine is punching illegible cancellations—wasting the time of your operator and everyone all down the line—replace it with a machine where your clerk can replace the needles.

Just send us a sample of the perforation it makes—that's all we need. We'll quote you a liberal trade-in offer for a new American that will put an end to your perforator troubles. Use the coupon below.

"The Modern Way Is the American Way"

AMERICAN

·ENDORSING CANCELLING·

THE AMERICAN PERFORATOR CO. · CHICAGO · NEW YORK · SAN FRANCISCO · *Established 1910*

AMERICAN PERFORATOR CO., 615 W. Jackson Blvd., Chicago, Ill.

Please send me, without obligation, complete details on ☐ The new American Endorser, and the ☐ Hand, ☐ Foot-Power, ☐ Automatic Electric Perforators, with a ☐ Quotation on your trade-in allowance on our old perforating machine, a sample impression of which is enclosed herewith.

Bank..........

Officer.......... *City*.......... *State*..........

Experiments in Regional Forecasting

By JOHN H. LIBBY

Business Forecasts for Small Cities and Communities is Next Step in Providing Accurate Working Knowledge for Banks and Commercial Enterprises. National Surveys Which Cover Only Entire Industries Fall Short of the Average Requirements.

BUSINESS forecasting is becoming a fine art. The old familiar general forecast, wide in its scope and general in its application, is giving way to predictions of business trends in specific regions. Forecasts which have been of great value to basic industries operating on a national scale, but which are often only vague and disturbing to the local banker or merchant, are being refined so that these smaller business units may have specific information on the course of events in their own territory.

The regional forecast like its predecessor, the general forecast, is the outgrowth of a pressing need of banks and business men for more detailed information. Before the war, the United States was distinctly behind the great industrial countries of Europe in the collection of all kinds of business statistics. After the beginning of the war, the tremendous fluctuations of commodity prices and their accompanying labor upheavals, and particularly the disastrous panic of 1920-21, gave rise to an urgent demand for information which would give some warning of the approach of trouble.

Results Were Magical

THE leaders in the search for information were the banks, many of which had suffered severe losses on loans made on expanded inventories manufactured and purchased at peak prices just before the slump took place. Many of the larger institutions employed their own economists, as did numerous manufacturing concerns and trade associations doing business over the whole country. The result was the system of statistics of production of commodities, electric power, crops, prices and other activities which make the business statistics of the United States the envy of all other industrial countries.

The effects of this information on business have been little short of magical. Manufacturers and merchants who used to carry huge inventories of goods have been able to study the trends of prices and production and to purchase quantities of goods just sufficient to carry on with current business. Turnover has increased. Future trends are more clearly discernible and business can be carried on with a precision and confidence that would have been deemed incredible ten or fifteen years ago.

> ## A New Field
>
> *LONG range predictions for small areas are developing slowly but it is pointed out here that if general regional forecasts can be made that will result in anything like the same degree of stabilization of local business that has followed the introduction of statistics and forecasts for the country as a whole the gradual perfection of more detailed and scientific methods may well be awaited. This article describes what can be done in the new field.*

But there is still something lacking. The forecasts of business are still too general to have any but a very broad application. The large city banker may be able to tell when business is on the wane throughout the country, because he sees that unfilled orders for steel tonnage are declining. Certain types of financing in that case might better be put off.

Needs of the Small City

BUT the banker in the small city would have a hard time to decide from the reports of unfilled steel orders whether or not it would be wise to finance an expanding fall stock for a local department store. The chief executive of a company manufacturing a nationally advertised and distributed article might pursue a cautious policy as to plant expansion or new financing because he sees from the general forecasts that business throughout the country may be expected to be quiet. But his sales manager would still be at a loss to pick out the district in which to establish new agencies and employ additional salesmen, or those in which he should reduce his sales force.

In other words, general business forecasts are of benefit chiefly in the determination of long range policy for entire industries. They are not particularly helpful in the solution of strictly local or regional problems. There are exceptions to this, of course, in cases where a city or locality is dependent on a single factory or group of factories such as steel mills or automobile factories whose prosperity can be immediately determined by the general prediction for the industry as a whole. Most communities are not of this types. The average American city has a good deal of diversified manufacturing and is usually dependent to some degree on a surrounding agricultural territory. It is for the bankers, manufacturers and merchants of such cities that the regional forecast is most needed and also for the guidance of the sales managers of the nationally distributed articles having agencies in the districts in question.

A Recent Experiment

SOME regional forecasts are already available in certain industries. Most of these are related to activities over which government, local or Federal, exercises some degree of control. Thus one agency compiles accurate statistics of building permits issued which can be used to forecast operations in the immediate future in that activity.

While this is very important, it falls short of general requirements of, say, a banker, as it does not indicate the trend for more than a short time in advance. However, in cities, if the building permit figures are checked against the advertising space wanted and space for rent or sale in the major classes of buildings, residential, office and industrial, a definite trend for building in that city can be determined for some time in the future.

Some years ago one of the large motor manufacturing companies undertook to

(*Continued on page* 289)

The Next Step in Bank Taxation

By THORNTON COOKE
President, Columbia National Bank, Kansas City, Missouri

Three Guiding Principles Reflect the Present Tax Situation. Aggregate of Taxes Is Going Up Instead of Down. Fundamental Changes in Bank Taxation Are Coming All Over the Country. Bankers Must Take Active Part in Shaping All These Changes.

Escape Taxation

A CHANGE in the present system of taxation in vogue in this country is advocated here on the ground that too much criticism from two important classes of taxpayers, the owners of real estate and the bankers. The method proposed is to reach the vast volume of intangible wealth which has grown up almost unnoticed and thereby make a more equitable distribution of the burden. The case for the banks is presented with unusual clarity.

FOR the past half dozen years or so most of the states of the Union have been changing and remodeling their tax systems. Taxation has been in a state of flux, but these experiments with revenue laws have produced some general principles on the subject of taxation which definitely point the way for the future.

The first of these principles is that whatever a state may do about its methods of assessing taxes, the aggregate of taxes is not going to come down, it is going up.

The next is that early and fundamental changes in bank taxation are coming all over this country, and in fact are in progress now.

The third principle is that bankers, who are and ought to be leaders in their respective communities, will have to take an active part in shaping these changes or they will be run over by them.

More Money Will Be Spent

WHY do I say that taxes in the aggregate are going up instead of down? Because the communities are going to do more, not less. They are going to take over not fewer but more of those tasks which a generation ago were undertaken individually or not at all. That means that more and more money will have to be spent.

We talk about the waste in public expenditure. Just where is it? I will admit that a representative government can never be as efficient as a despotism, but the benefits to the people from that form of government more than offset the waste in revenues.

There Are Some Frills

DOES anyone want our expenditure for education cut down? That absorbs 25 per cent of the total amount of taxes raised in this country, state and national. Would anyone like to curtail expenses for the protection of persons and property? That takes 24 per cent of all the taxes raised in the state and nation, and includes provisions for future wars and the expenses accruing by way of the support of veterans and otherwise for past wars. Does anyone want to see expenses for highways curtailed? They absorb 18 per cent of all the taxes raised in this country. We want not fewer highways but more; good highways, too, with all the cement in them that the specifications call for, and then we might even raise that 18 per cent a bit.

Perhaps as to education some saving could be made. There are some school buildings put up largely for the purpose of enabling the members of the board of education for the time being to put their names on the cornerstone; there are a few buildings far in advance of the requirements of the community they serve. There are also some frills attached to education that could be dispensed with. However, if everything anyone says ought to be cut out of the educational program were cut out, you could not see the difference in the terms of the national income absorbed by it.

He Was Highly Indignant

ONE day last year a Kansas ranchman who does business with our bank, came in simply frothing at the mouth because the taxes on his ranch in western Kansas had been raised in order to send out a bus to gather the children in the township and take them to a central school. But practically everyone wants the children in the rural district educated. Popular education has been a source of national pride and has proved its worth.

On the same day that ranchman called a rich real estate owner in Kansas City came in. He was highly indignant because they were putting in a swimming pool in the new junior high school. My daughter was going to that high school as soon as it was completed, and I regard swimming as much a part of her education as anything else. It costs money to put in the cooking department and equip it, but I do not think anyone should object to taxes for these things.

Take street lighting. Does anyone want to cut down on that? How in the world could we fight the crime wave if we did? If the appropriations for agricultural experiment stations were done away with or their activities crippled, how in the world should we fight the cotton weevil, the corn borer, and other insects that are competing with man for the fruits of the earth?

Paid Taxes on Losses

ONE-EIGHTH of the national income is now going for public purposes. It is a question of the distribution of taxes rather than the total. The total amount will not vary except upwards. That is why I said that the aggregate of taxes was not coming down, and thinking that it is a question of distribution is the reason I say that there is a fundamental change coming and that it is for the bankers to concern themselves with it. What form should that change take?

Let's see where the taxes have been raised so far. Land—right out there in the open where the assessor cannot overlook it if he wants to. Livestock—in Missouri they get part of the livestock; I suspect that more than one farmer fudges on the number of head of cattle he reports. Bank stock—all of it; we publish our reports from three to five times a year in the different states; the assessor knows to a penny what our capital surplus and undivided profits amount to and he puts it down at 100 per cent in Missouri. And in many cases, the banks have been paying taxes on losses, because of the uneasiness that might arise in the com-

(*Continued on page* 286)

HOWARD SAVINGS INSTITUTION
NEWARK, N.J.

July 11, 1929.

Monroe Calculating Machine Co.,
Orange,
New Jersey.

Gentlemen,

Sometime ago we changed our method of computing interest, and introduced a method of paying interest on deposits from the day of deposit. We felt at that time it was necessary to introduce calculating machines, and after making a thorough survey of the field, we adopted and installed eight of your KA-163 machines.

The installation of these machines under the direction of your efficient demonstrators was accomplished in a very short while, and have proved very satisfactory for the work for which we use them. Not only was the installation and instructions properly attended to, but the service (such little as we have required) is prompt and efficiently given.

We take great pleasure in recommending the use of the Monroe Calculating Machines for the line of work above mentioned, knowing from our experience they will prove thoroughly satisfactory.

Yours very truly,

Wynant D. Vanderpool

President.

AAS;RCM

Another Large Savings Bank adopts the MONROE

HIGH SPEED ADDING-CALCULATOR

THE Howard Savings Institution of Newark, with the largest deposits of any mutual savings bank in New Jersey, has solved the problem of computing interest.

After thorough investigation and consideration of every phase of mechanical figuring, they adopted the Monroe Adding-Calculator, which because of its simplicity, could be operated by their regular clerks after a very short period of instruction.

What their letter says about Monroe Service reflects the experience of many banks that are listed among our users.

MONROE CALCULATING MACHINE COMPANY INC· ORANGE· NEW JERSEY

Forces That Make for Prosperity

By O. MAX GARDNER
Governor of North Carolina

The Ability to Cater to Desire. The Power and Means to Adapt Output to the Changing Moods and Modes. Advantages of the Merger. Conservation of Life and Health. Scientific Taxation and Efficiency in Government Necessary for Continued Prosperity.

THAT American prosperity is a puzzle has been asserted so frequently and in so many languages that the statement itself may now be considered an international platitude. When American business, beginning in 1921, lifted itself from the ashes of dashed hopes and liquidated inventories and began falteringly to pick its way up the tortuous paths of new endeavor, and particularly when, later, its wheels of production began to turn faster and faster and the normal was approached and profits began to come in, students from the whole world came here to study our industrial system and, if possible, to discover the secret of its mounting success. That each observer who has ventured an answer to this riddle of American prosperity has immediately found himself in disagreement with all the rest suggests the variety of the explanations which have been offered.

Prosperity is an obscure and complex thing. The very term is highly relative in its nature and yields to no universal standards of measurement or comparison. For Europe, the supreme problem is one of rehabilitation. This, and a living wage, would be there regarded as prosperity, while in America, whose economic system came almost unscathed out of the war, prosperity is defined in terms of industrial supremacy and a high standard of living. As Paul M. Mazur points out in his extremely interesting book, *"American Prosperity"*—"Our industry is faced with the odd problem of feeding those who are not hungry and of clothing those who are already warmly clad."

Fundamentally, however, prosperity may be at least negatively defined. In the first place, general prosperity is possible only to the extent that raw materials are processed and adapted to supply and are made to supply human needs; and, in the second place, this process is, in its broadest sense, dependent upon the elimination of waste.

Victory a Matter of Residues

A MAN is shipwrecked and left stranded on an island. He is the sole inhabitant. He will become prosperous only to the extent that he is able to adapt the raw materials at hand to his needs. If he has corn or potatoes, he will plant some and the crop will afford him sustenance. He may kill an animal and use the skin for a covering for his body. He may set up a lean-to of poles and thereby provide shelter. This is, of course, in the very primitive realm of bare essentials to survival, but the degree to which our man Friday succeeds in adapting that which is already there to his human needs, to that degree will he be prosperous. And if, in planting his crop, he feeds part of a limited supply of seeds to the birds, that part will be wasted and to that degree the process of supplying his needs will be retarded.

By what process, then, may our man Friday achieve prosperity? What shall be his method of approach? What factors, within his control, may he employ for the promotion of his economic happiness and self-sufficiency?

Obviously the first requirement is industry. If he is to make the desert blossom and provide against the bodily discomforts of exposure to the elements, he must work hard and intelligently. But it is not enough to work and produce. He must save, for independence is to be found not in mere exertion, or even in the gross product of the process of creation, but in the margin which represents an accumulation over and above immediate needs. The late Marshal Foch said victory was a matter of residues and remainders. This is as true in the realm of economics as it is in that of military strategy. Only saved income contributes toward ultimate freedom from financial worries.

Transition From Necessity to Desire

BUT let us take a look at our man Friday in a different setting. Suppose that he has been rescued from the rude prosperity of his island home and that now he is a director and chairman of the loan committee of a bank in North Carolina. His friend Jones, president of the X cotton mill, has just poured into his ear the trouble of the textile industry in general and of the X mill in particular. He wonders what it is that makes some businesses prosper and others languish. And, wondering, he begins to speculate on the basic differences between economic conditions here and on the island.

There, the main problem was one of production. Here, it is one of markets. There, economic security resulted from long hours of work and unremitting activity. Here, the product of these same factors is a saturated market and goods piled up in warehouses.

And now let us suppose that director Friday's reverie is interrupted by an automobile salesman who would doubtless proceed in somewhat this fashion: "Mr. Friday, *any* car will get you there and bring you back. Your problem is not merely one of transportation: you want *style* and that extra margin of performance which gets you there zestfully and thrillingly. The new Moonbeam is a car intended for connoisseurs among motorists, that exclusive circle whose careful discrimination is satisfied with nothing less than Moonbeam's eager power, easeful riding comfort, exquisite fineness and unforgettable beauty."

Has not the automobile salesman indicated the fundamental difference between the economic picture of North Carolina and America and that of primitive society? In the latter, life proceeds on the level of necessity; in the former, it is to an amazing degree ordered along the lines of desire. "Our problem is to feed people who are not hungry and to clothe people who are already warmly clad." A car that will get us there and bring us back is not enough; we want an extra margin of performance, sparkling style, newness. "Life hates monotony, but loves rhythm," asserts Mr. Dorsey, in his book, *"Why We Behave Like Human Beings"* and the rhythm of America is ceaseless change. We have not time to wear out anything before it becomes out of style or obsolete.

Adaptability a Force for Prosperity

AT the head of the forces or factors making for prosperity, I place adaptability. A prominent financial service states in one of its bulletins: "The most promising securities are those which represent companies in a position to take advantage of our national progress and the new developments in science." We have seen that the task of satisfying the changing tastes of the public and the characteristically American desire for things that are new is one of industry's major problems. But this is only one aspect of the general problem. Science has revolutionized our methods of living. Our transportation, amusements, labors —even our diet—have been affected. Who, twenty years ago, could have predicted the present gigantic size of the

automobile industry? Or the astonishing developments in the field of radio? Or the evolution of the motion picture? Or the flying machine? Or the process of refrigeration? The influence of science upon human life and activity is incalculable and it is a significant fact that only those progressive companies which have kept abreast or ahead of the times have prospered.

Our first suggestion, then, resolves itself into an inquiry as to the nature of the forces which make for adaptability. And one answer to this is financial strength.

For the last fifty years in this country, little enterprises have been disappearing and big businesses have been growing bigger. In connection with this striking trend in our economic life, Mr. Mazur aptly paraphrases the famous soliloquy of Hamlet: "To merge or not to merge is the question uppermost in the mind of many a prince of the modern business: whether 'tis better to suffer the torments of competition and the dangers of individual strength or lose one's individuality in the benefits to be derived from union with other institutions."

Now it is not my purpose to suggest that in consolidation is to be found an immediate panacea for all our industrial ills. Competition has always been and will continue to be, in varying degrees, the life of trade. And mere size is scarcely more indicative of efficiency than it is of corruption. Moreover, individual initiative must remain the cornerstone of all industrial progress.

The Advantages of Merger

ON the other hand, there are certain very far-reaching, if very simple, advantages to be derived from merger. And one of these is the financial strength to make the plant changes necessary to keep abreast of the modern developments of science and of the constantly changing tastes of the American consumer. Large size offers industry the elements of strength and security that express themselves in economies and profits. Other advantages that may be listed include the possibility for quantity production with the resultant lowering of costs, control of output to conform to demand, reduction of selling costs, one advertising campaign and one overhead. Still other advantages are the profit-making possibilities in the acquisition of business whose types are allied to the parent company and whose results can be improved under consolidated operation, diversification of output and markets, and yet greater specialization and standardization in manufacturing processes.

The need for capital explains many bank mergers. Banks are limited in their lending, in the case of any one borrower, to a certain percentage of their capital and surplus. Frequently in these days of colossal borrowing, banks are compelled to merge in order to increase their capital and surplus to a figure that will enable them to meet borrowers' requirements.

In the textile industry, there are even more immediate and impelling motives for consolidation. Unless production is controlled and the guerilla warfare which results from unrestricted competition eliminated, the hope of the rehabilitation of this industry is desperate indeed. It would seem that the rather obvious wisdom and even necessity of the producer's possessing unquestioned title to and control over his own sales agency and his own sales market would have accelerated and accentuated the merger process in this industry long ago. It is interesting and somewhat singular that the textile industry is the only major industry in this country which has remained almost entirely unaffected by this modern economic trend.

But the keystone in the arch of the modern economic structure is adaptability. More and more life proceeds along the level of desire, and change is the order of the day. Even so recent and attractive an allegiance as that of business men of yesterday to standardization is being supplanted by the new love for variety and things that are different. And as the grim and uninteresting spectre of necessity is pushed farther and farther over the horizon of our everyday life, the glow in that East where desire begins will unquestionably deepen.

Conservation of Life and Health

THE relation between economic waste attributable to preventable illness and the general subject of prosperity is something which I approach with some diffidence. How much is a mother or a wife or a child worth? The question leaves one cold, for life, in its full implications, cannot be measured in terms of money. Life and health have a much higher and deeper value for us than material things: in fact, they give value and meaning to everything else. This factor of preventable illness and death amounts to a large item of economic waste. Sickness and impairment constitute a problem so large as to touch every individual life, and so important in our political and economic life as to be a matter of the first concern to everyone who has risen to the level of citizenship.

According to statistics which are accepted as being authentic, the average individual, between the cradle and the grave, spends one-fortieth of his time in bed because of incapacitating illness. The average worker loses two per cent of his time on account of illness, or a fraction more than seven days a year. And for every person who is bedridden, there are at least two physically impaired to the extent of ten to fifty per cent of their efficiency.

The people of the United States are paying for the treatment of disease not less than $2,500,000,000 a year, or $20.83 per capita, or approximately $100.00 per family.

In addition to the expense for medical services imposed by disease, there is an estimated annual loss to the people of the United States of $2,000,000,000 as a result of decreased wage-earning capacity.

Much of it is preventable our common sense and experience teach us. In North Carolina the Public Health Department has cut infant mortality from 7596 deaths per 100,000 population in 1917 to 6594 in 1927, and this in the face of a half million increase in population over this period. Deaths from typhoid fever have been reduced from 726 in 1917 to 226 in 1927; from malaria, 292 in 1917 to 55 in 1927; from diphtheria, 308 in 1917 to 278 in 1927; from tuberculosis, 3402 in 1917 to 2578 in 1927. Pernicious malaria has been wiped out entirely and the span of life in North Carolina has been extended 16 years in the past ten years. Industrially, sick labor is always a liability. To treat disease does not always pay, but to prevent it never fails to show a profit. As another factor making for prosperity, then, I should suggest preventative medicine. Few of us realize the value of our vital capital. It exceeds our material wealth by five to one. It costs money to raise human beings to the point of self-support, but when they begin to work they produce a great deal more than they cost.

Efficiency in Government

THERE is one other factor which has a direct bearing on prosperity. It is the problem of reform in taxation and the introduction of efficiency in state and local government.

And when I say this, I am aware that compared with some other states, our scheme of taxation does not show up unfavorably but we must improve our system of taxation.

Theoretically, I suppose everyone believes in an efficient organization and administration of government to the end that it shall furnish satisfactory service at the lowest total cost. Yet, in the face of this general and somewhat vague attitude on the part of our people, the cost of government, and particularly local government, has reached a point where, if we do not get the same service for less money, or more service for the same money, we are going to have to curtail our public services or we are not going to be able to foot the bills. From 1920 to 1928, the total indebtedness of local governments in North Carolina increased from $94,000,000 to $385,000,000, a 300 per cent increase in eight years. Now the public debt of local governments should have increased over this period, but that even a reasonable percentage of this total sum has been expended to the best advantage no one would seriously contend. Of this debt $42,000,000 was incurred in 1921 and 1922 when interest charges were at the very peak. The average interest rate charged for this $42,000,000 was 5.9 per cent.

Too much is clipped from the dollar paid by the tax-payer before that dollar

(*Continued on page* 291)

The Seal that Endorses an Investment

A banker of repute is chary of "recommending an investment." Before he goes that far it is probable that he has conducted a careful, thorough investigation and has been entirely satisfied regarding the security of principal and interest . . .

. . . or he has looked for and found the seal and guarantee of General Surety Company. These serve as an unconditional, irrevocable, absolute endorsement of the investment on which they appear.

Before we endorse an investment we carefully investigate not only the security but also the company which issues it.

GENERAL SURETY COMPANY

340 MADISON AVENUE, NEW YORK

Capital and Surplus $12,500,000

Under Supervision Insurance Department State of New York

Profits and the Census

By CARL WILSON

Decennial Census to be Taken Next Year Will Bring to Light Hitherto Uncompiled Facts and Figures on Business. Field of Distribution to be Included in Usual Canvass of Population, Agriculture and Manufactures. Sign Posts of Success Sought.

BUSINESS long ago took off its blinders. The demand of the business man now is not only to see where he is going but to see clearly and accurately all the hills and valleys in the road so that he may adjust his pace accordingly.

The next decennial census, to be taken in 1930, is being planned to furnish the most comprehensive information ever compiled for plotting the curve of future business. The count of the population of the United States which is made every ten years by law has been going through a process of evolution in which more and more material has been gathered to enable the nation to know itself. In 1930 the census will seek out the actual facts which will make possible informed foresight into the business activity of the country.

Results of the 1930 census will mean more, perhaps, to the bankers of the country than to any other class. Business men will have at their command the largest number of guides to profits yet assembled. The bankers, who finance business, will have these same guides to lead the way in credit operations.

From Door to Door

WITHIN the next year the census enumerator will once more be going from door to door. In the 1930 count he will ask more questions that ever before, some of them delving deep into the methods by which goods are sold to the public. This article explains what the answers to these questions will mean to the bankers and business men of the country in supplying a fact finding basis for the guidance of commercial enterprises.

May Bring a Surprise

WHILE the 1930 census will be the broadest in scope ever undertaken, dealing on the business side with distribution, manufactures and agriculture, there will be no lessening of the emphasis upon the organic function of the Census Bureau, which is the enumeration of the population of the United States. In the final analysis it is in the numbers of its citizens that the true strength of a nation lies.

Accustomed as this country is to progress and expansion the fifteenth decennial census in 1930 may bring a surprise in the realization of the growth of the population of the United States. In the 150 years that will have elapsed since the first census was taken in this country there has been an increase in population without parallel in the records of history. Accompanying this growth in numbers to a total of some 120,000,000 there has been a steady improvement in standards of living enjoyed by no other nation.

A Rapid Rate of Increase

CENSUS bureau officials estimate that the population of Continental United States is now increasing at the rate of about 1,400,000 persons a year. This is an increase of approximately one person every twenty-three seconds. The total increase in population is made up of the annual excess of births over deaths, which amounts to 1,150,000 and the excess of immigration over emigration, which amounts to an additional 240,000 a year. By 1930 it is expected that the population will be more than thirty times as great as it was in 1790, when the first census was taken, and nearly twice as large as it was in 1890, only forty years ago.

In 1790 the 4,000,000 people who lived in the United States occupied a territory of 868,000 square miles, there being 4.5 persons for each square mile of territory. The present area of Continental United States is 2,974,000 square miles and the average population per square mile in 1930 will be more than forty, or nearly ten times the earlier average.

There were only six cities in the United States having as many as 8000 inhabitants in 1790. Only a little over 3 per cent of the total population of the country was represented by these cities. In 1920 there were 924 such cities and their population was nearly 44 per cent of the total. Including the population of smaller cities down to those with 2500 inhabitants, the urban population of the United States in 1920 formed a little more than half of the total and the rural a little less than half, while the farm population taken alone formed less than 30 per cent.

A Nation of Cities

A DECADE ago there was a pronounced tendency for this country to become a nation of cities. In recent years certain strong factors operating against this tendency have developed, of which the automobile is one of the most potent. Many people who work in the city are enabled by the use of a car to live in the country. This condition is the basis for the belief that by reason of this growth of suburban residential areas the 1930 census will not show the usual increase in the proportion of urban population.

Enumeration of the population in the country districts will include the census of agriculture, which means the obtaining of information of some 6,500,000 farms. The importance of agriculture was first recognized by the census in 1840, when thirty-seven inquiries were devoted to crops and livestock, and products derived from them. The census of agriculture for 1930 will call for replies to considerably more than 300 inquiries.

The inquiries of the modern census pertain to acreage, values, tenure of operators, crops and livestock, and to an increasing degree to the mechanical equipment by which the farmer is enabled to increase production. In 1920 the farm census called for the number of tractors, automobiles and trucks, and the farmer was asked whether the farm house was equipped with a telephone, whether water was piped into the house, and whether the house has gas or electric light. Radio outfits were first inquired for at the mid-decennial census of agriculture in 1925. An even more extended list of questions will be asked the farmer at the 1930 census.

The Story of Production

IN 1920 there were 246,000 tractors reported and in 1925 the number was 586,000, an increase of about 138 per cent within the short space of five years. Census reports show that there were reported on farms a total of 284,000 radio sets. Undoubtedly this number

(*Continued on page 281*)

Irregular Loans, Commonly Called Float

By W. R. MOREHOUSE
Vice-President, Security-First National Bank, Los Angeles

Simple Solution Advanced for Problem of Losses from Float. When Bankers and Depositors Are Both Converted to Consider It in True Light as Irregular Loans a Reasonable Interest Charge Fair to All Parties Will Be Natural Course Adopted.

Salient Points

INVESTIGATION discloses that every time a bank advances funds in payment of an uncollected item or allows immediate interest on it, it makes an irregular loan for which interest should be collected, and that the depositor is the only one benefited by irregular loans, and consequently should pay a reasonable charge for the service rendered him. These and other salient points on the plugging of profit leaks through float charges are discussed in this article.

ALL uncollected items on which a bank advances cash or pays interest before these items are collected and the proceeds in cash or its equivalent are paid into the bank's hands is commonly called "float." All other items in process of collection are uncollected funds. For the purpose of this discussion float will be called "irregular loans," which it is, beyond any question.

As soon as our bankers regard "float" as irregular loans they will see that it is good business to make an interest charge and that it is unbusinesslike to continue to advance money without interest as so many banks are doing today.

The solution of our problem of irregular loans is a simple one. Convert our bankers and our depositors to the point where "float" stands in its true light as irregular loans, and the natural course to pursue is to make a reasonable interest charge, which is fair to both parties.

Should Call a Spade Spade

EVERY time a bank advances cash on items payable elsewhere than in the bank itself or pays interest on these funds, it makes an irregular loan of its funds. There is no other interpretation that can be placed on it. No one would question that our banks are exacting when it comes to collecting every cent of interest due on regular loans. This being the case, let me ask why are they not collecting interest on their irregular loans? Certainly there is no justification for not doing so.

The thing our banks should do first, is to call a spade a spade. In other words call "float" by its true name, which is, irregular loans.

The second thing our bankers should do is to realize the magnitude of their irregular loans on which no interest charge is made. As to the amount of irregular loans in the United States, one banker's estimate is as good as another, suffice it to say that bankers generally will agree that it runs up into millions of dollars.

As each individual banker is chiefly concerned only with the irregular loans on the books of his own bank, he need only analyze his own business in order to know how much they are costing him. Many banks have already done this, and the large amount of irregular loans on their books was almost unbelievable. Unbelievable because in the past these irregular loans have been just so much float and because of the seeming unimportance of float they were dismissed from further attention.

Many city banks have deferred from immediately crediting uncollected items to their country correspondents for years, and this, of course, has served further to keep the country bank that is in the habit of cashing or crediting items immediately from breaking even on the transaction. The only hope for the country bank under such conditions is to pass the deduction on to the customer where it rightfully belongs, and who is the one benefitted by receiving immediate credit for his out-of-town items. There is no use sidestepping the issue, the customer is the only one benefitted, and is the proper person to "pay the freight," consequently, the bank that fails to collect interest from the proper source is robbing itself. There is no way that this can be taken out of either the collecting or the paying bank without a loss to one of them. As a matter of fact, there is no good reason for doing so. The sooner our banks educate the public to expect this charge as justified, the sooner will their burden of irregular loans be solved.

Just Another Leak

A GOOD way to educate the public to expect this charge is to notify them of the charge, at the same time explaining the justice of it, and, later make the charge effective. The fairness of it can never be successfully disputed, for to allow an individual, firm or corporation to use money which is still miles away and unavailable, is to lend him the bank's funds, but not in the regular way. To pay a customer interest on funds which have not yet come into the bank's possession is just as unbusinesslike.

Irregular loans should never have been called "float." Had banks used the true name it is safe to say that ten banks would be collecting an interest charge today where we have one doing so. Apparently our banks did not realize that they have been lending their own funds without interest for years.

Irregular loans are just another one of those leaks in a bank's earnings which have been cutting down the margin of profit to a point perilously near the loss column.

Both Are Parasites

IRREGULAR loans are the twin brothers of the despised overdrafts which banks try so hard to keep weeded out of their books. Both are loans and both are parasites, unless carefully watched and an interest fee charged.

Then there is the professional bank crook who finds such a fertile field in the realm of irregular loans that he uses it as one of his principal channels for defrauding our banks. Every banker

(*Continued on page* 249)

Irregular Loans, Commonly Called Float

(*Continued from page 246*)

knows this to be true. Just as banks for years neglected to make a study of the numerous methods of computing interest on deposits, they have also neglected to give more than a casual consideration to the subject under discussion.

Bankers Have Awakened

IN this particular they are not unlike a cowboy who lives high up in the Apache Mountains in Arizona, who, when recently asked by a friend of mine for the time of day, said, "I'm sorry, sir, but my watch broke down a year ago and I've neglected to get it fixed."

"Well, how do you know when to get up?" he was asked.

"Well, you see, I had an alarm clock up until four months ago and it broke down, and I've not bothered with getting it fixed either."

"But how do you know when to get up?" his interrogator insisted.

"Oh, I just gets up when I wakes up."

Diminishing net profits that have been gradually drawing dangerously near the loss column have at last awakened our bankers to the fact that in so far as bank operations go, they will have to do more than to "get up when they wake up" but, in the future, they will have to keep very much awake all of the time if they are to continue to pay stockholders' dividends and add a little to surplus.

Free Service Expected

OF my own knowledge, for the past thirty years, banks have been educating the public to the point of regarding checks and drafts as cash. As a general practice, checks and drafts running into the billions of dollars have been credited to accounts subject to immediate withdrawal although they were uncollected. In nine cases out of every ten no interest has been charged. The public has been taught that bank drafts are cashable on demand anywhere, and at par, regardless of the point on which they are drawn. The truth is, the public has taken this to mean that the holder of a bank draft may walk into any bank, whether it is ten miles or 3000 miles from the point drawn on, and expect the full amount to be paid over to him gladly.

It is the common thing for persons who present "out-of-town" drafts for cash, when requested to pay a small interest fee, to remark with great surprise, "Oh, my banker told me that I could cash this draft anywhere; that banks were glad to get bank drafts, and that it's the same as cash." In other words, the public has been educated to expect this service free, and it is not surprising that they now object to paying a small interest charge. There is just one answer to the predicament in which banks find themselves, namely, every time they cash a draft on an out-of-town bank without an interest fee they make just one more irregular loan without interest.

Just as 12,000 bankers have in recent years educated their depositors to pay a monthly service charge on small household checking accounts, banks must also apply the same corrective measure to the present use of checks and bank drafts.

It is no misstatement to say that where checks and drafts are cashed on out-of-town points as an accommodation, the accommodating bank suffers a financial loss, and not the holder nor the issuing bank. In other words, the "buck" is passed on to the obliging bank.

What Actually Happens

THERE is, however, a consideration which should not be entirely overlooked. It is from those who are visitors to a community that many of the future citizens of that community will come. Some of these visitors will later become good customers of the bank, as it is from strangers who cross the thresholds of our banks that their future patrons very largely come.

For this reason, and for this reason only, the present practice of cashing small drafts with a smile has grown up, although it has meant lending the bank's money without interest, and this has had the effect of cutting down the bank's profits.

As a matter of fact, the charging of an exchange fee is what makes the collecting of an interest fee difficult. Naturally, after having paid an exchange fee, the holder gets the impression that the fee covers the cost of transferring his funds In fact, that is the seller's reason for making him a charge. At least that is the inference. What actually happens is that a fee is charged for transferring funds to the point drawn on and nowhere else. Seldom is it the point where the traveler wishes to convert his exchange into cash. As is very often the case, an exchange charge is made, although the funds are transferred farther away from the place where the draft is to be cashed than where it is issued. As, for instance, many middle western and Mississippi Valley banks sell New York drafts to persons who expect to cash them on the Pacific Coast. It is not until the holder calls on a western bank to cash his draft does he realize that his funds were transferred east instead of west.

The ultimate solution of this problem will be found in educating the public to expect two charges, an exchange fee and an interest fee.

Gave Three Cheers

I HAVE no fear in stating that the interest fee on these items will produce a larger revenue than the present exchange charge, for much of our exchange is sold and the fee waived. Of the two, the discount charge is destined to be the biggest producer of revenue for a bank.

With the establishment of the first regular air mail service between New York and Washington in May, 1918, banks everywhere gave three cheers, believing at the time that their burden of "float" was soon to be materially lightened. The time previously consumed in collecting items was soon to be greatly reduced, and especially on items drawn on points many miles away. It was instantly acclaimed from the "house tops" that air mail meant more interest on a bank's balance and quicker availability. But on second thought our bankers began to see that they had anticipated too much from air mail. While air mail meant an earlier higher balance for the collecting bank than by the old method, it meant a corresponding lower balance quicker for the bank drawn on.

As was clearly evident, the claim that air mail would mean a saving to the banks of the United States of millions of dollars annually was premature. For as banks have since found out, the savings made by collecting banks came out of the banks on which items are drawn, in other words, what is one bank's gain is another's loss.

In a Hit-or-Miss Way

MY investigation disclosed the fact that some banks have undertaken to collect interest on their irregular loans in a hit-or-miss way. Apparently they have followed no definite plan. This cannot be entirely satisfactory to them. Once a plan is decided upon, it ought not be susceptible to change every time a "tight-wad" customer comes in and objects to an interest fee on the ground the bank has never charged him before, or because his "old home bank" never made a charge. As for the "kicker" who usually gets what he "kicks" for, he should be made to pay, just as the customer who sees the justice of the charge and pays it gladly. As for customers with big balances, they ought not to be made an exception to the charge, especially before it has been accurately ascertained whether or not their business is profitable, for a big balance is not always a sure sign that an account is a revenue producer for the bank carrying it.

Although many banks make a flat charge of so much "a month" to their good accounts within a certain balance range, I doubt the justice of it. Experience has proved conclusively that in making an interest charge for irregular loans, each account requires individual treatment. Customers are not unlike wooden clothes pins in that while clothes pins may be the same in size, in shape and in price, they vary materially in quality and service. Among one dozen clothes pins taken from the same box, you will find some in which the wood is twisted and curled and easily broken,

in others the wood is clear and straight grain, giving assurance of long service.

Flat Charge Unfair

A FLAT charge is unfair in the case of good accounts because the kind of business transacted by different customers varies. The items deposited by certain depositors are almost all on local or nearby points, while the checks deposited by other customers are almost invariably drawn on distant points. Some deposit many items, others only a very few.

With unprofitable "household" checking accounts it is different. In their case a regular monthly service fee should be made to cover the cost of handling uncollected items, as well as other costs of carrying the account. There are already 12,000 charging this monthly service fee, and in doing so they have also solved their problem of collecting an interest fee on uncollected items deposited to these accounts. When the time comes that practically all of our banks make a regular monthly service fee on small unprofitable accounts, then will our problem of an interest charge on these small accounts be automatically solved.

This monthly service fee on small accounts would also make the collection of interest charges on small uncollected items profitable, whereas it might not be of sufficient size to justify the cost of levying it.

In Dead Earnest

THROUGH a questionnaire which I sent out in July, and through the whole-hearted cooperation of some of my banker friends throughout the United States, I was able to get a good cross section of how certain banks are handling uncollected items.

But let me digress from a discussion of the subject before us in order that I may offer a word of praise of those bankers who are making it a rule in their banks to answer all reasonable questionnaires instead of throwing them into the waste-basket.

The use now being made of the questionnaire is the best evidence that has ever come the way of American banking that our bankers are in dead earnest in their search for better methods and systems of conducting their business. Through the questionnaire bankers are learning the value of exchanging ideas for the benefit of all. The results to follow are certain to be reflected in better managed and better operated banks, consequently better earnings.

A Day Is Dawning

AS is to be expected, I received a wide variety of answers to each question, indicating that as yet, with the exception of clearinghouse banks, there is little uniformity in the methods used in handling these irregular loans. And yet, the answers reveal that banks as a rule are striving to reach the same goal although by different routes. As one banker said, "We are much concerned about it," and as another said, "We hope to work out some plan for charging interest on 'float' and thereby plug up a terrible leak in our bank." Practically every banker reached by my questionnaire expressed himself as heartily in favor of an interest charge on irregular loans.

In reading the general comments accompanying many of the answers it was clearly evident that a day is dawning when irregular loans known as "float" will be universally handled on a business basis, and those who reap the benefit will be made to pay an interest charge.

Some of the bankers who answered the questionnaire expressed dissatisfaction with present methods of handling irregular loans. These signs of unrest are good signs. It is only when bankers become self-satisfied with matters of this kind that there is danger of turning a profitable year into a losing year.

Already many banks have banded themselves together, and through their respective clearinghouse associations or through various groups of one kind or another, have made long strides toward a successful solution of their problem of irregular loans.

In my questionnaire only one question was asked regarding irregular loans to be found in savings accounts, and, as was to be expected, it was disclosed by the answers thereto that a large majority of banks reporting are crediting all items deposited to savings accounts at par.

In defense of their position, certain banks made this explanation: Inasmuch as they pay interest from the first of the month on deposits made on or before the 5th, or 6th, or 10th, or 15th, as the case may be, and no interest on deposits made after those dates until the first of the following month, they felt that they were justified in crediting uncollected items at par. Other banks that pay interest from date of deposit but only to the first day of the month in which withdrawals are made also felt justified in crediting uncollected items at par, for similar reasons.

Why Grant Special Favors?

THIS left those banks that pay interest on savings accounts down to the date when a customer calls for his funds, actually paying interest on funds in process of collection. The only other banks that would be similarly affected would be those banks that take uncollected items for immediate credit on savings accounts or certificates which by stipulation are deposited for a specified time with interest for the full time.

In the two last named cases, interest should be deferred where a depositor has the right to withdraw at any time with interest to date of withdrawals, or on funds left for a stipulated time with full interest for the period specified. The only exception to this might be in the case of new accounts, and this brings us to the question, why grant special favors to a stranger that is denied to depositors of many years' standing.

In answer to this question, "Do you make a charge for uncollected items deposited for immediate credit in commercial (checking) accounts on which you do not pay interest?" about 60 per cent of the banks contacted make no charge while 40 per cent charge if the uncollected items are drawn on before actually collected and in the possession of the bank. If those banks that make no charge will analyze their accounts they are almost certain to find that they have customers who draw against future deposits even before their deposits are made in the bank, while other depositors begin to draw out their funds from the day a deposit is made, and in some cases the entire amount of their out-of-town items is withdrawn before they have been collected. There is no use dodging the issue. The facts are, a careful analysis of banks' accounts has revealed over and over again that there are many depositors in our banks whose balances represent uncollected funds, and with these depositors it is a regular practice.

Use the Bank's Funds

I KNOW of one large account with a $40,000 average balance. For years it was regarded as the best account in the bank where it was kept. One day its value to the bank was challenged, with the result that it was analyzed and to the astonishment of the banker who had prized the account so highly it was disclosed that at no time had the depositor a balance in the bank, the credit to his account being uncollected funds. Not only had he been using the bank's funds by drawing out his many deposits as soon as made, but the bank had for years paid him 2 per cent interest on what really was its own funds.

The history of this account can be repeated with slight variation in thousands of cases in the United States.

This reference to large accounts is not to infer that small accounts may safely be overlooked, for if our bankers will analyze their small checking accounts they will find many which are carried at a loss to the bank because depositors are in the habit of drawing on the uncollected funds in their accounts. Of course, with these small accounts, if a bank is charging a monthly service fee this will take care of withdrawals of uncollected funds. If no service fee is being charged, either an interest charge on uncollected funds or monthly service charge should be made at once, in order to stop a leak at this point. In fact, the best way to handle all small checking accounts is by making a monthly service charge, which, as already stated, takes care of withdrawals on uncollected items.

Can Only Lose Expense

THE fact that a bank does not pay interest on its commercial (checking) accounts does not in itself justify a bank in neglecting to give attention to the use being made of all such accounts, for if the depositor is habitually drawing out his funds before they have been collected, the bank is making him irregular loans for which it is entitled to interest at its lending rate, or even a higher rate. Taking all of the banks in the United States,

(*Continued on page* 282)

Overshadowing the Gold Point

By RAY HALL

Theory That Gold Shipments Are Essential Elements in Final Settlement of International Accounts Challenged. Balancing Transactions in Commodities Believed of Greater Influence. Transfer Problem Held a Myth. American Experience Described.

DISCUSSIONS of how international accounts are settled, usually put too much emphasis on gold shipments—and on the "finance bills" used to postpone or obviate gold shipments. There are two other types of balancing transactions, each probably more important in their aggregate.

Under many circumstances, gold is less likely to be used to settle international balances than are certain kinds of merchandise. A country on the gold standard will not export gold for purposes of settlement, until its exchange is at a discount about equivalent to its lower "gold-point"—that is, until it is cheaper to ship gold than to pay the premium on foreign exchange. The size of the discount which will move gold differs with the time and with the country; perhaps it can be visualized at around ½ per cent. It can be shown that certain lines of merchandise move on a foreign-exchange differential even narrower than this—thus partially settling international balances before an impending gold movement gets started, that is, before exchange rates ever reach a gold-point.

More Mobile Than Gold

AS an example, a Japanese importer wants a shipload of a certain type of wheat. Such wheat is stored in elevators both at Vancouver and at Seattle. A discount of ½ per cent on Canadian exchange at New York should be enough to throw the business to Vancouver; although last spring that rate of discount was insufficient to move gold out of Canada.

As another example, a discount rate of ½ per cent on Belgian exchange might determine whether a consumer of structural steel on the Atlantic Coast will buy from Belgium or from our own interior.

The best examples of merchandise more mobile than gold will probably be found among the "staples"—such as, to give just a few examples, cereals, hides, cotton sheetings, and structural steel. The grades of such staples are internationally known; so they are as acceptable, in their place, as gold is. The average profit on turnover in these lines is likely to be so narrow that a foreign-exchange differential of even ¼ per cent may determine which country gets the order. Yet it is precisely these goods that run into the largest amounts in foreign trade.

Despite All the Talk

THE aggregate movement of these hypersensitive commodities, in response to foreign-exchange differentials, is perhaps very important, relatively. This is seen when it is realized that, in amount, gold shipments are usually of minor consequence in a modern balance of payments. Despite all the talk about gold movements, our net international movement of gold averaged only $171,000,000 annually during the six years ended with 1927, or less than 2 per cent of our average annual foreign trade, during those years.

Furthermore, a large part of the movement was on a "commodity basis" rather than on a "foreign-exchange basis." Gold moves on a commodity basis when it is bought, regardless of exchange rates, for gold reserves in currency reconstruction; when it is sent abroad, for deposit, in order to make it a productive asset; when it is shipped long after being earmarked; or when gold ore is imported, or exported, for smelting.

It would not be surprising if in certain years a comparable amount of staples actually moved, or was actually prevented from moving, by foreign-exchange differentials. Certainly no one should regard cases of this sort as something imagined to illustrate abstract thought.

Funds Without a Country

THE merchandise staples in question are not the only values, besides gold, which may be hypersensitive to foreign-exchange rates. Two classes of financial transactions can be cited, each tending to settle international accounts before a "gold-point" is reached.

Security-arbitrage transactions (whereby specialist brokers profit from differences between simultaneous quotations in Wall Street and in foreign stock markets) are even more sensitive to exchange rates than merchandise is. In 1928, according to our balance of payments, our international stock market transfers totaled nearly $4,000,000,000; a large part of this business was security-arbitrage. It is probable that hundreds of millions of the arbitrage transactions depended upon exchange rates at the time and that hundreds of millions of similar transactions were thus prevented. How the actual transfers of funds under this head compare with the volume of gold shipments would be hard to say, for an overwhelming part of these arbitrage commitments are on margin and for brief periods.

Migrations of short-term capital from country to country in response to interest differentials may be prevented or encouraged by the foreign-exchange differentials. The volume of these highly mobile funds-without-a-country can only be surmised; but nowadays it probably runs into the hundreds of millions. They are supposed to move on minute differentials.

Balancing Efficiency

A SECOND class of balancing transactions, which far exceeds the volume of gold shipments, may be described as direct "detractive and promotive influences;" some such new terminology being necessary. The distinctive thing about them is that they have great "balancing efficiency" and that they have nothing to do with exchange rates or with gold shipments.

An American exporter, for instance, increases his foreign sales by $100,000, thereby forcing foreigners to find $100,000 more of dollar exchange. The exporter, having $20,000 more profits than in the previous year, takes his family to Europe and spends $4,500 on the trip; he gets a "second car," and someone imports rubber for the five additional tires; and he buys $10,000 of securities, of which $4,000 are foreign bonds. In all this he pays no attention to foreign exchange rates; hence about 10 per cent of the foreigners' "problem" in getting an additional $100,000 of dollar exchange was solved directly. Anyone in the United States acquiring $20,000 of additional income—from purely domestic transactions—might import the same visibles and invisibles; but the cause would not be international.

Bought Fewer Cigars

THE yield of our foreign investments is estimated to have been $327,000,000 more in 1928 than in 1922. Large fragments of this increase certainly went straight back to foreigners—quite apart from the effects of altered exchange rates, just as in the case of the American exporter's $20,000. Give our com-

(*Continued on page* 291)

Proposed Amendments to Association Constitution

THREE proposed amendments to the Constitution of the American Bankers Association will be submitted to the Fifty-Fifth Annual Convention at San Francisco as shown by the following notice officially published by the Executive Manager.

The first of these amendments simply strikes out from Article VIII a sentence which is no longer operative.

The second proposes to amend Article X by adding a clarifying provision to Section 1. That Section now prohibits a member of one Division from holding office in another Division. It occasionally happens that an officer of an institution that is a member of one Division, by reason of special knowledge or aptitude, is particularly fitted to serve on a committee of another Division. To remove any doubt as to eligibility on the theory that service as a committee member constitutes holding office, the amendment is designed to make it clear that such an officer of a member of one Division, is eligible to appointment upon any committee of any other Division other than an executive committee of such Division.

The third proposed amendment effects the design to carry out a reorganization of the Clearinghouse Section, so that instead of its being classified as a section of the Association it will, in the future, be known as the "Commission on Clearinghouse Functions and Banking Practices." This reform has the approval of the Administrative Committee and of the Executive Council and is made at the suggestion of the officers of the Clearinghouse Section in the thought that the members of the Association can be better served by the section functioning as a Commission.

The amendment to the Constitution simply eliminates the Clearinghouse Section from the list of sections and by-laws have been prepared and approved by the Administrative Committee and the Executive Council which will become operative after the adoption of this constitutional amendment by the Convention which will provide for the organization and functioning of the new Commission.

Official Notice

FOLLOWING is the official notice of the proposed amendments:

Notice of proposed amendments published by the Executive Manager pursuant to Article XI of the Constitution, all of which have been proposed by the Administrative Committee and submitted to the Executive Manager more than thirty days before the date of the Annual Convention.

1. Amend Article VIII of the Constitution by striking out the last sentence of the second paragraph which reads as follows:

"At the first meeting of the Executive Council after the adoption of this Constitution, the Council shall elect from its elective membership one member of the Administrative Committee to serve for a term of one year, and two members to serve for a term of two years, and annually thereafter at the organization meeting provided in Section 7 of Article VII shall elect two such members to serve for two years; provided that any elective member of the Administrative Committee who is so elected prior to the adoption of this Constitution and whose term in the Council has not expired shall continue as a member until the expiration of his term of membership in the Council."

2. Amend Article X of the Constitution by adding to Section 1 thereof the following:

"Provided that nothing herein shall prevent an individual member or an officer, director, trustee, manager or partner of a member of any division from being eligible to appointment by any other division upon any committee of such other division other than the Executive Committee thereof."

3. Amend Article VIII of the Constitution by striking therefrom the words "Clearinghouse Section."

Amend Section 2 of Article X of the Constitution by striking therefrom subdivision "(e)" and changing the lettering of subdivisions "(f)" and "(g)" to "(e)" and "(f)" respectively.

By-Laws Amended

THE amendment to the By-Laws proposed by Administrative Committee to become operative after the adoption by the next General Convention of an

(*Continued on page* 280)

The New Plan for Selling A.B.A. Travelers Cheques

AFTER conference with the Bankers Trust Company the Committee on Travelers Cheques of the American Bankers Association is able to announce a new plan of interest to sellers of A.B.A. Travelers Cheques. This plan involves additional compensation to sellers of cheques in some volume, based largely on the well-established principle of discounts for quantity sales.

The new plan has been approved by President Craig B. Hazlewood, of the Association, in the following statement:

"Your officers and Administrative Committee are very glad to observe the successful culmination of negotiations with the Bankers Trust Company of New York, which is the selling agent for the A.B.A. Travelers Cheque, for an arrangement whereby member banks selling cheques in profitable volume may secure added compensation. These negotiations were initiated during President Traylor's administration and continued through the administration of President Preston. We believe that the new arrangement will provide an additional benefit to members of the association and will, at the same time, enhance the sale of travelers cheques which bear the name of the American Bankers Association."

The Bankers Trust Company during the past two years has been putting greatly increased emphasis on its sales effort, having increased the number and heightened the calibre of its sales force. During the current year it has inaugurated the policy of advertising over the radio, which is the first program of its kind conducted on a large scale by any bank. It also advertises the cheque in some sixty newspapers throughout the country urging users to buy the cheques from their own banks.

However, the experience of the last few years has made it evident that in order to maintain the A.B.A. Cheque in its proper relative position, it would be necessary in some measure to offer definite financial inducement to the membership of the Association, in order to increase sales. Many plans were suggested and most of them appeared to be impractical because the margin of profit in this operation has always been very slender and any blanket rebate plan would involve rebates so small as to be no inducement for added sales effort on the part of the selling banks.

Sales Minimum Reduced

FOR some months a plan has been tried out with representative banks in various parts of the country, and at the present time over 300 members of the Association have signed definite contracts with the Bankers Trust Company based on undertaking considerably increased sales quotas. The Bankers Trust Company agrees to return a certain amount to banks which reach these increased quotas, based on cheques outstanding more than thirty days. This plan was started on a basis of minimum sales of $200,000. It was later reduced to a minimum of $100,000 and then to $50,000. It is now possible to offer these terms to banks which will maintain a minimum annual sales volume of $25,000.

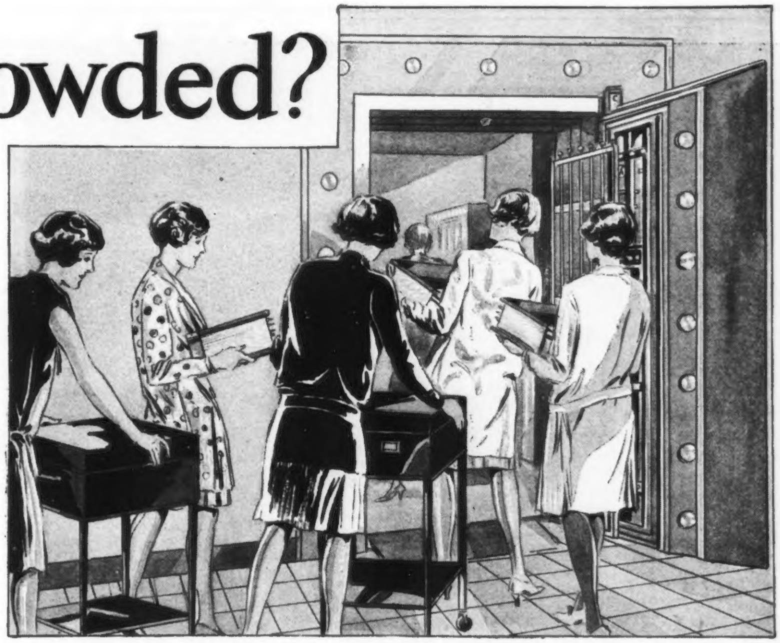
The nature of the plan is such that individual negotiations with the various selling banks by representatives of the Bankers Trust Company are necessary, and owing to the limited number of representatives available they have not yet been able to visit personally all the banks which can attain this volume of sales. The company will be glad to hear from any institutions that are interested in this plan and undertake to have representatives call at the earliest possible moment.

It should be noted that the great majority of members of the Association handling A.B.A. Cheques do not sell a sufficient volume to produce a gross profit on their annual sales. An independent audit recently completed by the

(*Continued on page* 256)

Vaults Crowded?

This new Safe-Ledger Tray is *Self-Protected*



OPENING TIME . . . closing time . . . clerks lugging heavy books—pushing ledger trays to and from the vaults. More business means more records, and space is at a premium . . . Confusion . . . the vault is jammed.

No bank need tolerate crowded vaults, nor risk the loss of vital records by fire. The specialized experience of Remington Rand has developed this Safe-Ledger Tray . . . Portable protection for machine posted ledgers.

Each ledger its own vault. In seconds . . . two quick motions . . . the file is open and ready for use . . . or closed, locked and insulated against fire!

The vault has been brought to the ledger.

Ask the nearest Remington Rand office for descriptive literature and prices.

The Safe-Ledger Tray is available in three sizes

As the cover goes down the tray comes up

Two motions and the cover is closed . . locked

Remington Rand

BUSINESS SERVICE

BUFFALO. NEW YORK

Travelers Cheques

(Continued from page 254)

Association reveals that during the entire period of the stewardship of the cheque, the Bankers Trust Company has made a direct loss from the operation. In order to preserve this cheque in the position the Association desires it to maintain, it is consequently imperative to increase the volume of profitable sales.

Basic Commission Unchanged

"WE are very happy to be able to report," the Committee stated "that the present plan has already produced a substantial up-turn in the sales volume and that with the cooperation of the members along present lines we believe very substantial progress can be shown in the next few years. If this turns out to be true the trust company may be placed in a position to reduce even further the sales minimum which can be made subject to the additional compensation plan referred to above.

"It should be noted that no change is made in the basic commission on which the cheques are offered to all members alike, and that the plan of additional compensation is open to any member of the American Bankers Association who can qualify by selling a volume of cheques sufficient to produce a profit in the operation.

"It is realized that there are many banks which have always loyally supported the A.B.A. Cheque and have attained something like their possible maximums without any added inducement. The same advantage is offered to these banks as to those who now for the first time undertake to increase substantially their volume of sales.

An Outstanding Success

"THE Committee on Travelers Cheques is gratified that a way has been found to make it possible for the members to cooperate more actively in the sale of A.B.A. Cheques, which the Association believes represents an outstanding achievement during the past twenty years of Association history. This cheque, which is handsomely engraved by the American Bank Note Company, carries the name of the Association in a favorable way to every corner of the world.

"Nearly 5,000,000 cheques were carried by hundreds of thousands of Americans last year, and almost no complaints were received from the holders thereof, either on the ground that they were not acceptable or for any other reason. In many instances the trust company has been highly commended for making prompt reimbursements to holders for lost or stolen cheques. It is the hope of your committee that all banks in a position to handle a substantial volume of these cheques will do all they can to support the Association's desire to have this cheque continue as an outstanding success."

YORK VAULTS

Skyscrapers and Modern Bank Vaults in Texas

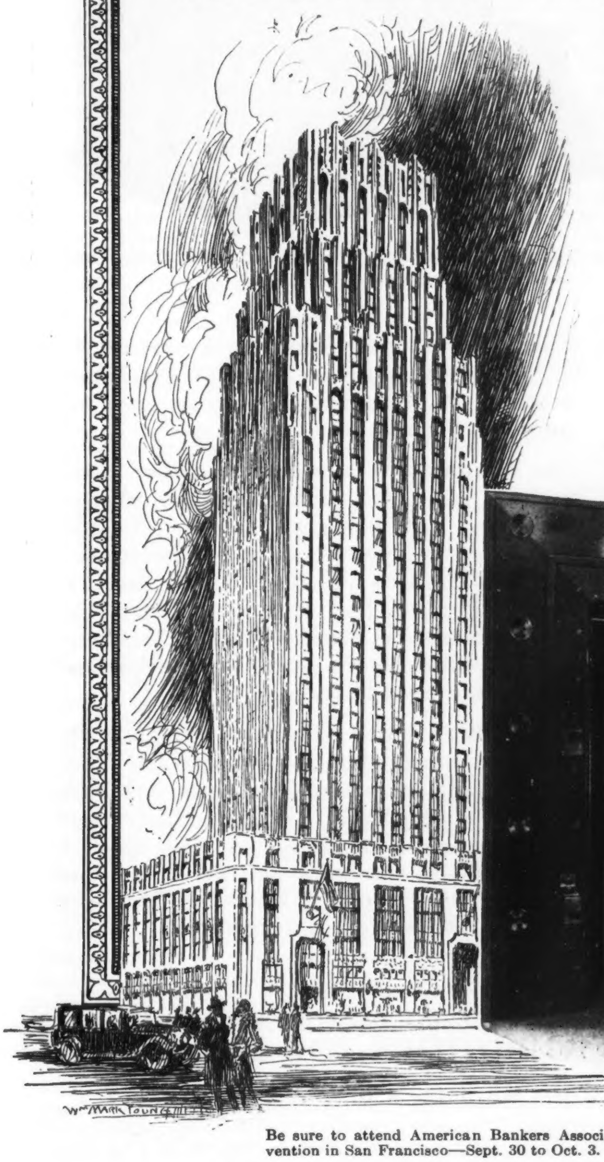
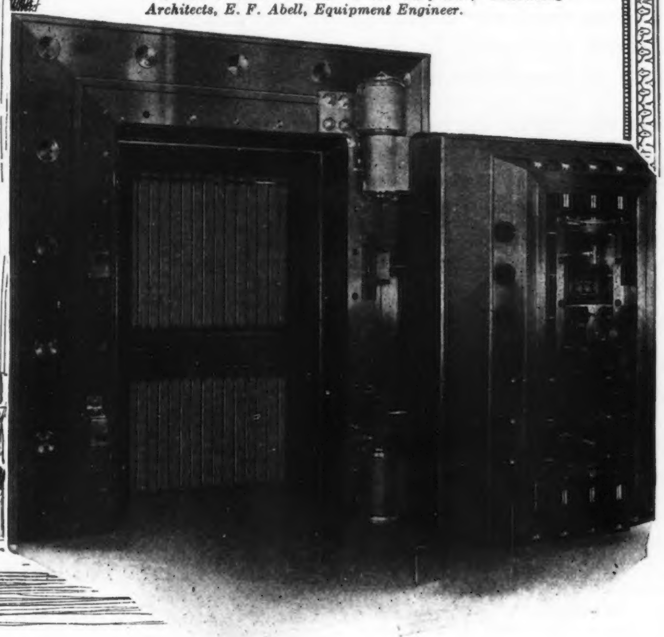
THE story of progress in the Lone Star State is being written in a language of steel and concrete across the Texas skyline—industrial, commercial, and financial expansion expressed in the mode of the century.

The National Bank of Commerce in Houston, Texas is one of the great financial institutions whose new skyscraper homes will represent the most modern ideas both in building construction and in bank and vault equipment. It will have one of the strongest and most complete bank vaults in the southeastern United States. The safe deposit vault entrance is 20″ in net solid thickness, and the same is true of the entrance to the security vault. Incorporated in each is a substantial thickness of Infusite, the York torch-resisting metal. Over 3,000 new boxes in the safe deposit vault offer a range of sizes to meet the needs of a widely diversified clientele. Each box is constructed of stainless steel and is equipped with the York Combination Changeable Key Lock, the greatest advancement in lock construction since the invention of the combination lock.

The security vault is equipped with special steel chests and lockers for the Trust Department, Banking Department, and the Commercial Departments of the bank.

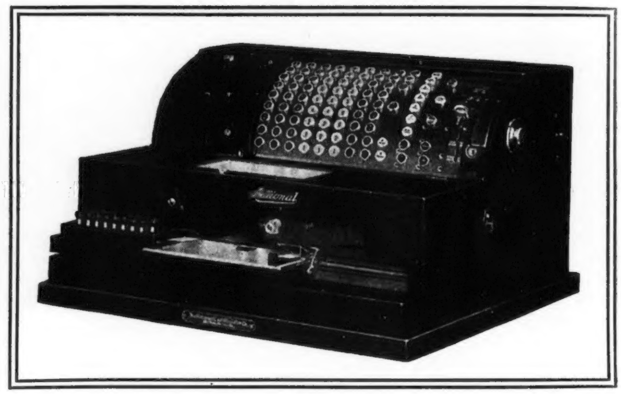
YORK SAFE and LOCK CO.
York, Pennsylvania

This magnificent structure is a noteworthy addition to Houston's imposing skyline. Alfred C. Finn, Architect, Kenneth Franzheim and J. E. Carpenter, Consulting Architects, E. F. Abell, Equipment Engineer.

Be sure to attend American Bankers Association Convention in San Francisco—Sept. 30 to Oct. 3.

National... Accounting Machines *have brought a new service to banks ... Everywhere*



SIX years ago The National Cash Register Company announced a new posting machine for the savings departments of banks. That announcement marked the beginning of a service which has brought new standards of accuracy, economy and speed to the savings departments of hundreds of banks.

Recently that service was greatly extended through the addition of the Ellis Adding-Typewriter machine to the line of National Cash Register products. Now, not only savings postings but transit letters and many other forms of bank accounting can be handled on National Accounting Machines.

The real measure of what this service has been worth is its acceptance by the banking world. In New York City seventy-five banks use National Posting Machines in their savings departments. Of these one uses more than 60 machines, another 40, another 30 and many use more than ten.

The National Accounting Machine (Ellis Model) has also definitely established itself in the banking field. As the Ellis Adding-Typewriter it has been used over a period of years by many institutions. Backed by the service facilities of The National Cash Register Company this machine means more to the banker today than ever before.

Today there is not a bank in the country, large or small that cannot profit from the banking service of The National Cash Register Company. To learn just what that service can mean to you only a phone call to our representative in your city or a wire to our Accounting Machine Division at Dayton is necessary.

National Accounting Machines for Banks

***Product of* The National Cash Register Company**

Dayton, Ohio

The Condition of Business

Outlook of Autumn Trade Improves and Industrial Production Remains High. Earnings Point to a New High Record This Year. Further Expansion of Brokerage Loans Increase Pressure on Credit but Money Rates Have Not Seriously Hampered Business.

BUSINESS enters the late summer and autumn season with industrial production continuing at the high level of activity that has prevailed for several months. A study of production for the first eight months of the year, with August conservatively estimated, reveals that for some three dozen major commodities an increase in output over the corresponding eight months of 1928 has been achieved with but few exceptions, and the average gain of the group is approximately 15 per cent. Retail trade has been quite satisfactory, considering the usual lull that comes with hot weather and vacations, and the outlook for fall business is one of promise.

Merchandising chains are slowing down on their program of opening new stores, and the wholesaler and independent retailer seem to be working out plans involving mergers, cooperative buying and profit-sharing. Such a vast volume of business as has been done this year, and the relatively stable price level, have made earnings soar to new high records, and it is significant that in most instances the net profits have increased much faster than have gross revenues, indicating further progress being made toward efficiency in industry and transportation. Employment is large, payrolls are above a year ago and industrial disputes are found in only a few centers.

A Noble Experiment

MONEY rates behaved better last month than earlier in the summer, but if any banker does not yet realize that a credit strain exists he should analyze the entire portfolio of his own loans and discounts and calculate the average rate that would apply on all of the paper held. He will probably find it the highest for years back, and to be compared only with the period of 1919-20-21. Action by the Federal Reserve Bank of New York in raising the rediscount rate to check speculation and concurrently lowering the bill rate to help business is interpreted as an unusual and noble experiment, which took the financial world by surprise and may accomplish the ends intended, although many private authorities express doubt as to the possibility of controlling credit into specific channels, regardless of rates offered.

During the past twelve months member banks have increased their secured loans by $768,000,000 and their commercial loans by $421,000,000, disposing of $442,000,000 of security holdings in order to do so, yet at the same time the loans to brokers by "others" have expanded an additional $1,588,000,000. At present the aggregate of non-banking funds loaned in the New York stock market is over $3,500,000,000, and most of this could be withdrawn at any time; in fact, all that is loaned on "time" at a rate above 6 per cent, when applied to individuals and partnerships, is technically in violation of the New York State usury law, the penalty for which is forfeiture of the entire principal and interest (except national banks, which lose only the interest). Bond prices are still depressed by tight money, and trading is dull, except in a few issues such as convertibles. A large portion of the country's savings that formerly went into bonds direct or through banks is now being placed in the investment trusts of every variety, some of which are little better than "blind pools."

Industrial Production Up

THE exceptionally high rate of industrial production generally during the past several months makes it appear certain that many new high records will be established before the end of the current year. In order to show definitely the output that has been achieved among different lines, a study has been made of some three dozen major commodities and articles, based on the production of the first seven months of the year with August conservatively estimated, and a comparison made with the actual figures for the first eight months of 1928. A summary of the results follows:

AMERICAN INDUSTRIAL PRODUCTION

First eight months (August estimated) of 1929 and percentage of change from 1928

		Eight Months 1929	Per Cent Change
Automobiles			
Passenger cars..		3,718,200	+30.1
Trucks		603,080	+59.6
Building Material			
Yellow pine......	000,000 ft.	3,216	— 5.5
Douglas fir......	000,000 ft.	3,212	—13.0
Cement	000 bl.	111,030	— 2.0
Foodstuffs			
Flour	000 bl.	74,020	+ 2.9
Sugar	000 tons	2,141	+10.3
Cattle slaughtered	000's	5,318	— 6.5
Hogs slaughtered	000's	31,317	— 6.6
Sheep slaughtered	000's	9,084	+ 6.5
Leather and Shoes			
Sole leather.....	000 sides	9,998	— 7.3
Upper leather....	000 sides	12,071	— 9.2
Shoes	000 pairs	23,542	+ 2.5
Machinery			
Machine tools....	Per cent normal	301	+39.9
Farm implements	Per cent normal	171	+19.7
Metals			
Pig iron.........	000 tons	28,562	+15.5
Steel ingots......	000 tons	38,313	+16.9
Copper	tons	691,690	+20.7
Lead	tons	450,570	+30.3
Zinc	tons	424,490	+ 1.3
Petroleum			
Crude petroleum.	000 bl.	641,380	+ 9.2
Gasoline	000 bl.	273,510	+13.1
Lubricants	000 bl.	29,546	+ 6.3
Railway Equipment			
Locomotives		627	+162.0
Freight cars.....		51,770	+121.0
Rubber			
Tire casings.....	000's	43,382	+10.7
Tire tubes.......	000's	43,459	+ 4.7
Textiles			
Cotton	bales	4,842,700	+12.6
Silk	bales	407,610	+ 7.1
Wool	000 lb.	461,590	+ 8.2
Miscellaneous			
Bituminous coal.	000 tons	334,940	+ 6.9
Anthracite coal..	000 tons	48,739	+ 0.7
Cigarettes	000,000's	78,271	+10.5
Cigars	000,000's	4,216	+ 2.8
Wood pulp......	000 tons	2,928	+ 4.3
Paper	000 tons	9,251	— 1.7
Fertilizer	000 tons	4,986	— 2.1

For the entire group shown above the average gain over the previous year is approximately 15 per cent, a most remarkable showing, even considering the fact that these lines represent for the most part basic commodities and that studies of the long-term trend of production of every type of goods give a somewhat lower figure. Iron and steel as well as non-ferrous metal production has been running larger than ever before, and the same is true of motor cars and trucks, tires and petroleum. Machinery production has been heavy, including machine tools, farm implements and railway equipment. All three branches of the textiles have increased their output compared with last year, as have coal and tobacco products. Building materials have eased off somewhat. Food products and meats show a mixture of gains and losses, the 10 per cent increase in refined sugar production being due to the unusually low prices prevailing. Leather production is off, but shoes are slightly better.

Trade Outlook Favorable

AT the present time the reports on retail trade gathered from all parts of the country by the mercantile agencies indicate that sales are fair in most centers, and the number of slow spots is more than offset by other cities where sales are running above the average. Merchandising experts observe a change taking place in the chain store field, which has had such rapid expansion during recent years and has seriously cut into the radius of operations of the

independent retailer and the wholesaler as well. It is said that many of the large chains have temporarily halted their expansion of new stores and are now concentrating on increasing the sales and earnings of the existing locations. Competition between the large chains has become quite keen, and in the typical town of medium size can be found representatives of all the national chain organizations lined up along the main street.

As another phase of this situation it is found that the existing chains are arranging numerous consolidations as a means to acquiring more locations, rather than opening new stores. But the independent retailers and wholesalers are taking steps in the same direction, and a few combinations have already been formed among distributing houses in the same line, often hooking up with their retailers on some arrangement of cooperative buying and profit-sharing, while a number of similar projects are in the negotiation stage.

Confidence in an active wholesale and retail trade this fall is increasing. Nevertheless it is not likely that the established custom of buying for only short periods ahead will be departed from, and with the stock markets in their present temper there is always the possibility that a severe break in prices would cut purchasing power in the fall and holiday seasons, for which goods are now being laid in.

Record Corporation Earnings

REFLECTING the large volume of manufacturing and trade this year, reports of earnings by corporations make a highly satisfactory showing, even when one allows for the large business establishments going ahead somewhat faster than does the small merchant or factory owner, also for the fact that a large number of unprosperous units do not make their reports public and reveal them only in the group figures issued by the Treasury Department a year or so later.

A tabulation of the reports of more than 900 companies that have now been issued, covering the first half of the year, shows a gain of 27 per cent over the corresponding period of 1928. In the case of the railroads the gain was 21 per cent, which was the result of a moderate increase in traffic handled, combined with only a small increase in operating expenses, thus resulting in a sharp increase in net operating income. For the general industrial and trading classifications there was an increase of 36 per cent in their combined net profit, and eight out of every ten individual companies made an improved showing, in many cases, such as petroleum or rubber, turning a deficit last year into a surplus. Following are the details of this study, which includes every report published up to September 1 and is believed to be fairly representative of American business as a whole.

CORPORATION SEMI-ANNUAL REPORTS

Net Profits—000's Omitted

No.	Industry	Six Months 1928	Six Months 1929
7	Amusement	$8,303	$13,793
15	Apparel	7,837	7,460
21	Automobile	226,950	236,295
40	Auto accessory...	40,016	64,917
6	Aviation	7,546	12,522
20	Building material.	14,096	19,166
18	Chemicals, industrial	62,597	79,785
14	Chemical products	19,844	22,579
12	Coal mining......	2,864	4,241
12	Copper	26,714	50,668
20	Electrical	48,017	65,554
13	Flour and baking.	28,891	33,810
23	Food products....	55,001	61,445
20	Household goods..	18,555	23,469
35	Iron and steel....	93,450	189,209
5	Leather	1,923	D-3,548
37	Machinery	22,888	35,413
27	Merchandising ...	26,368	34,562
19	Metals, non-ferrous (exc. copper)	21,809	30,797
13	Office equipment..	11,711	15,228
5	Paint and varnish	3,228	4,702
9	Paper products...	5,220	6,031
40	Petroleum	61,130	107,754
9	Printing and Pub.	16,382	18,930
12	Railway equipment	17,866	25,386
7	Real estate.......	5,359	7,563
7	Restaurant chains	3,580	3,154
6	Rubber	D-6,328	17,342
3	Shipping	857	2,394
5	Shoes	8,972	8,605
14	Textile products..	5,446	6,761
8	Tobacco	5,635	6,762
34	Miscellaneous	20,409	28,506
536	Mfg. and trading.	$909,464	$1,241,435
185	Railroads	462,025	563,347
100	Tel. and tel......	128,645	137,625
95	Other utilities....	430,458	507,500
916	Grand total......	$1,924,264	$2,449,907

D-Deficit.

Surprising Action

INTEREST rates are high, not because there is any scarcity of loanable funds, but because the purchase of stocks has run ahead of savings and has depended upon borrowed money to such a large extent. So long as the banks are willing to lend additional funds as needed, supplemented by outside lenders who remove their deposits from banks to lend direct to brokers, and by foreign bankers who transfer balances here from all parts of the world, the call rate can be kept from getting excessively high, even though a squeeze occurs every month-end.

Brokers' loans have expanded approximately 47 per cent during the past twelve months and the amount loaned in New York alone by banks and others has now passed the $6,000,000,000 mark. All year the Federal reserve banks have attempted to check this inflation by means of selling their bills and securities to offset the imports of gold, and last month the New York Reserve Bank raised the rediscount rate from 5 to 6 per cent and at the same time lowered the buying rate on acceptances from 5¼ to 5⅛ per cent. This rather contradictory and surprising action was interpreted to mean an effort to check credit in general but to lighten the cost of crop moving and commercial transactions. Acceptance rates are not so important as might be supposed, for the volume of goods financed on this basis is quite small in relation to total trade and the majority of business houses outside of New York City have never made use of a banker's acceptance in their entire history.

It is therefore idle to talk of the reserve banks "helping business" by lowering their buying rate on bills by ⅛ of one per cent. Moreover there is reason to seriously doubt the possible effectiveness of this unusual policy of concurrently raising and lowering rates. If the central bank authorities are convinced of the necessity of curbing expansion of secured loans they could accomplish their end by successively raising the discount rate to 7 per cent, 8 per cent and as high as may be necessary to break the market. This, however, they are reluctant to do for the reason that it would undoubtedly hurt business, but meanwhile the stock loans continue to swell and business generally is stimulated by the purchasing power that comes from market profits. Many bankers do not even believe that it is possible to control credit by arbitrary means, since it always tends to flow into the channels that bid the highest rates, and they are watching with great interest the working out of what they call a "noble experiment."

Bank Changes in the Year

DURING the past year the condition of banks has changed principally in the form of their assets rather than in the amount, while at the same time the body of loans made by outsiders to brokerage concerns has grown to nearly $3,500,000,000, and constitutes an element in finance that has been termed by Colonel Ayres "our invisible banking system" but can no longer be spoken of, as has been done in some quarters, as "our insignificant banking system." Following are the member bank figures for the latest date in August available, compared with the beginning of the year and with August, 1928:

REPORTING MEMBER BANKS

In millions of dollars

	Aug. 21, 1929	Jan. 2, 1929	Aug. 22, 1928
Commercial loans....	9,432	9,000	9,011
Secured loans.........	7,513	7,807	6,745
Investments	5,488	5,931	5,930
Loans and investments	22,433	22,737	21,686
Demand deposits...	13,068	13,983	12,785
Time deposits.........	6,730	6,912	6,823
Govt. deposits.........	44	167	148
Total deposits.....	19,842	21,062	19,756

(*Continued on page* 294)

Major Financing in August

Issue	Amount	Rate	Due	Price	Yield
Miss. River Fuel Corp. 1st s.f.	$16,000,000	6	1944	103	5.62
Sou. Calif. Edison Co. ref. mtge.	15,000,000	5	1954	98	5.14
Chilean Consol. Munic. loan ext. s.f. A	15,000,000	7	1960	94	7.50
Sou. Natural Gas Corp. 1st s.f.	13,000,000	6	1944	97½	6.25
City of Chicago park imp. etc.	9,500,000	4	1930–49	..	4.65–5.50
C. R. I. & P. Rwy. Co. eq. tr. P	9,450,000	4½	1930–44	..	5.15–6
Ulen & Co. conv. s.f. deb.	7,500,000	6	1944	99	6.10
Natl. Hotel of Cuba inc. deb.	6,250,000	6	1959	100	6.00
Penn. Dock & Warehouse Co. s.f.	5,750,000	6	1949	98	6.17
Standard Investing Corp. conv. deb.	5,000,000	5½	1939	100	5.50

The Super-Bank

(*Continued from page* 195)

citizens and use the money for payment of its own interior debts. The profitableness of such an operation remains, however, an open question.

In neither of these cases can the proposed Bank for International Settlements be expected to do much for altering the conditions of the mobilization of reparations claims. In the first case the difficulties remain fundamentally the same. In the second, each creditor country must act on its own responsibility and can only have some technical assistance from the international bank.

Without Utopian Ideas

THE third current of thought that has contributed to the formation of the Young plan proposal for an international bank is the idea that the world's banking organization needed to be completed by some central institution that could take the lead in the reorganization of the world's money, finance and trade. This idea was particularly prominent in the early post-war times. A lot of projects for an international bank were then published and serious international conferences, such as that of Brussels in 1920, had much trouble with clearing the ground of them. The real work of reconstruction had to be carried through without the resort to any Utopian ideas.

Today the world's currencies are practically all back on a gold basis. This result has been attained by the efforts of the several countries concerned, assisted by a friendly and far-sighted cooperation of the leading financial powers, but without the help of any international super-bank. Similarly, in the sphere of finance and trade international loans have been arranged on a scale unprecedented in the world's financial history; and this has been done by private initiative and by the aid of the savings of millions of people, no mystical creation of international "credit" having been required for the purpose. The world's trade has been rebuilt and even developed far above any pre-war standards; only political restrictions have prevented this development from attaining much more. There has been no need of a central institution for taking the lead in this remarkable achievement of the unlimited forces of private initiative and private accumulation of capital.

Why a Super-Bank?

WITH these facts before our eyes we may really ask why it should now be regarded as necessary to create a world's super-bank. The Young plan gives some hints as to the value of such a bank for international trade. It seems clear enough that under present conditions of the world's economy Germany cannot possibly pay the sums that the plan requires. It is therefore a natural thought that everything should be done to increase the world's produc-

tion and the international exchange of goods, whereby Germany's paying capacity would be furthered indirectly.

More particularly this end could be promoted if capital could be supplied on an increasing scale to undeveloped countries which thereby would become capable of absorbing a surplus of German export goods. There, again, it is thought that the new bank for international settlements should prove a powerful instrument for realization of conditions favorable for reparation payments. Still it must be regarded as extremely doubtful whether such an international bank could do anything appreciable for improving the basic conditions of the world's production and trade.

For the much desirable increase of the capital supply to undeveloped countries, and particularly to the colonial world, the bank's own resources would obviously be entirely insufficient. If it is said that the bank could induce the creditor countries to invest their reparations money in the colonial world, the answer is that investments in these countries are continually going on and that their further growth depends much more on confidence in peace and in a normal development of international trade relations than on any service an international bank may conceivably be able to effect.

In any case it remains to be seen how far undeveloped countries supplied with capital from German reparations payments will be allowed to use such capital for acquiring German goods. The tendency to control colonial markets in the interest of one's own exports seems to be too strong to become appreciably mitigated by such an external fact as the erection of a world's central bank.

May Obscure Fundamentals

WHAT has now been said should of course not be taken as a verdict in advance on the results that might be attained by the new bank. Every business man knows that the value of a new enterprise is not defined by the prospect. The ultimate result always depends on the management.

All we can say in the present moment is that the new bank is not needed from the point of view of the world's economy and that it, even if a convenient instrument for reparation payments, does not alter the fundamental conditions of the possibility of such payments. There is some danger lest the erection of the new bank should obscure these fundamental conditions and make public opinion believe that more had been accomplished for real progress than is actually the case.

On a Grand Scale

ON the other hand, it is impossible to feel sure that the erection of an international bank may not produce new difficulties that may prove serious enough. Nobody knows how the great power of such an institution will be used and what particular influences will

succeed in controlling it in their service.

It must also be regarded as extremely doubtful whether it is wise to create a bank which should be a central reserve bank for the world and at the same time act on a grand scale as an investment institution. Any experience speaks against such a combination. The greatest care must obviously be taken to prevent the new bank from a development that could easily involve more harm than good. And, under all circumstances, the present work for the world's progress must be continued and no part of it can be left aside as if the creation of the new bank were a sufficient measure for solving the problem before us.

This holds true with regard to the stabilization of the world's currencies and of the gold standard itself as well as to the promotion of international trade and capital movements. But, as shown above, it also holds true with regard to the basic conditions of the reparation payments problem. Institutions and formal arrangements may under certain circumstances be useful. But they can never serve as a substitute for real work for the world's progress.

Soil Conservation and the Banker

(*Continued from page* 198)

These meetings have been very well attended because of the bank's interest in getting these farms, on which they have loans, terraced, if such work is needed. They have over 60,000 borrowers in the state. The meetings consist of practical lectures by Mr. Short, the Extension Farm Engineer, and others. Then they go out in the fields, lay out some terraces, and build them.

This cooperative move between the bank and the college is getting results and still other agencies are coming in and working with the college in putting across the terracing program in Texas. The result of this is that there are 2,808,251 acres terraced in Texas at the present time.

When the bankers and the investment companies who have money loaned on farm lands become interested in this proposition of conserving our soil, I believe we will get further than we can in any other way. The terracing of lands which need terraces will, in no small way, assist in solving the national flood control problem.

Farm Returns Increase

RETURNS from farms operated by owners throughout the United States in 1928 averaged larger than for any other year since the postwar agricultural depression which began in 1921-22, according to an announcement by the Department of Agriculture based on reports received in the course of its annual survey of farm income.

The year was marked by gains in the South Central, West North Central and East North Central states, with the greatest decreases in the South Atlantic and North Atlantic states.

Why the Discount Rate Was Raised

(Continued from page 218)

easing through a lower bill rate would be considered a little more optimistic than the intangible tightening through a higher rediscount rate would be considered pessimistic. Perhaps by this time the stock market has accepted this view, which it might have done at once if it had weighed properly the counterbalancing influences of the two rates.

May Bring Down Interest Rates

NOW the question is, what volume of bankers' acceptances or bills will the reserve system buy between now and the end of the year?

It is obvious that bills cannot be bought faster than they are issued and there are limits to their issuance. The use of bills is growing from year to year. Last year was a record and this year probably will set a new record. Last year there was an increase in all bills outstanding by about $300,000,000 between August and December, mainly in September and October, the total reaching $1,284,000,000 in December. The reserve system absorbed just about this amount of increase, $300,000,000. Reserve banks at the peak season held about two-thirds of all bills, $812,000,000, of which, roughly, 40 per cent, nearly $500,000,000, were for their own account, and, roughly, 25 per cent, or $325,000,000, were for the account of foreign correspondents.

Thus it might be reasonable to expect that the reserve banks will acquire $350,000,000 to $400,000,000 of additional bills before the end of the year, easing the money market by this amount. But something like $300,000,000 will be needed for currency. If the bill purchases are greater, or if open market purchases of government securities are made in addition, then the amount of reserve credit released through open market operations may be enough to enable member banks to reduce their aggregate rediscounts.

If this occurs, if discounts are lowered, the tendency may be to bring down interest rates. This is highly conjectural at the present time, for it depends on so many future developments which cannot be anticipated either by outside observers or by the Federal reserve authorities themselves.

Officials Are Sympathetic

THE Washington impression is that a 7 per cent rediscount rate in New York is improbable, although not impossible.

The feeling in Washington is that the 6 per cent discount rate will not tend to increase the pull of gold here from London, which can ill afford to lose it. Some authorities think that a 6 per cent rediscount rate under present circumstances of higher call money rates do not have much to do with the pull of gold from

abroad. In fact it is not known how much foreign money is on call loan in New York, although the amount is estimated variously at between $200,000,000 and $350,000,000.

There is an impression that New York banks will try to prevent the call money rate from rising, keeping it perhaps around 7 per cent. This is not a direct concern of the Federal Reserve Board in Washington, but there are some reasons for thinking the officials here are cognizant of the intention and are sympathetic. The motive, so far as Washington is or would be concerned, is not to stimulate the stock market, but to keep the call money rate from dragging other rates upward. Lower call rates also will tend to discourage banks outside New York from throwing their funds into that market.

Playing the Game

It is too soon to begin to talk about when the discount rate will be reduced. Washington authorities say they do not know, and they certainly do not know. It all depends on the various factors mentioned in this discussion, and on some other factors not mentioned.

The question is often asked as to whether the stock market will not take a bullish spurt when the rate is finally brought down. In this connection it should be noted that, after all, the stock market did not take a permanent drop when the New York rate was put up to 6 per cent. It develops that the 6 per cent rate was not the speculation-deterrent as advertised in advance. It probably was of far less influence than it would have been three months ago. There are ample grounds for suspecting that a reduction of the rediscount rate, when it comes, will not produce a runaway market. This is further suggested by the fact that credit restriction through bills or securities may be applied simultaneously with some future discount rate reduction, thus playing the game opposite to the current phase.

Has Kept Hands Off

Since Federal Reserve Board policies have become so much of a public issue, it may be pertinent to point out at this time that the recent rate policy was adopted only after a conference with governors of the reserve banks. It was apparently a community decision on which there was no serious disagreement. The board is consulting the governors freely. At the same time there are reasons for suspecting, without actually knowing, that the board is getting its collective mind in shape to take actions more quickly and summarily hereafter. If it were to be admitted that the New York rate should have been raised sooner, then it is conceivable that under comparable circumstances in the future the action would be taken sharply.

The White House or the "administration" or other political influences had nothing to do with the recent rate policy of the reserve system, reports intimating this being made of whole cloth. The White House has kept hands off credit policies.

Congressional inquiry will be made into Federal reserve policies, stock market speculation, branch and chain banking and other bank and credit questions in the next session of Congress in the spring of 1930. Legislation to strengthen the power of the Federal Reserve Board to control the use of credit in securities markets will be proposed. The attitude of the Federal Reserve Board probably will be that it has plenty of power already, that it would be unwise to attempt to use all the power already possessed, and that new legislation of fundamental nature is unuecessary.

Reserve System Profits

Net profits of all member banks in the Federal Reserve System for the last six months of 1928 were $249,532,000 according to an announcement by the Federal Reserve Board. This was about $5,000,000 less than for the first half of the year, but considerably larger than for any earlier half year in the history of the system.

Net return was at the rate of 8.6 per cent on the capital funds of the banks as against a rate of 9.3 per cent for the first half of 1928 and 8.2 per cent for the last half of 1927.

Letters to Branch Managers

(*Continued from page* 199)

live up to true banking principles, the result will be that later on when the inevitable hard times come, our customers will be overextended and will have contracted bad habits through our lax banking practice.

"Now is the time to weed out your poor customers; either get them to pay up or square up in a satisfactory manner, and do not let your good borrowing customers get into bad habits. We have plenty of money and should be able to take care of the legitimate and deserving customers the coming year and will probably have a large surplus above this, but this large surplus is an abnormal thing, due to abnormal conditions, and we must brace ourselves and be ready for the comeback when it comes. We wish collections pushed just as hard this year as when we actually needed the money for our own safety.

The Burden of the War

"DECEMBER 11, 1916.—I have put in quite a little time recently on the distribution of expense account which is kept up at head office for all of the branches. As a rule, I pay very little attention to this book, as in times past I have never found much in it to interest me, outside of the fact that it does cost considerable money to do business. A few little things have come to my attention recently which caused me to go into it a little more closely. Besides, our profits have been cut this year, and a great many burdens are being placed on us on account of the war. We are being taxed on circulation, and the stamp tax is hitting us quite heavily. Besides that, there is an inclination to load on all kinds of expenses in the way of donations, and we must watch the corners very closely to try to save what we can in order to make any kind of decent showing.

"In going over the account I did not find any dresses for the managers' wives nor hair ribbons for the little girls, neither did I discover any suits of clothes for the managers, but I did find some little things which seemed to me a little peculiar in a bank's expense account. Nothing serious, still I hope that all of the managers will watch this account another year as closely as possible and try to cut out all unnecessary expenses. All of the banks are having to do the same.

"Every line of business is feeling the burden of the war, and I presume we will feel it more heavily. We do not wish to take the war expense out of the employees, as some of the institutions have been doing. The facts are, we are one of those who have not reduced salaries and cut down the staff heavily.

Some Pretty Plain Talk

"SEPTEMBER 5, 1917.—While I have been off the job the different liability ledgers have been running through

my mind pretty regularly. If I could have had some of the customers in to see me some of the mornings when my temperature was down, I think I would have given them some pretty plain talk. Perhaps it is just as well they did not come in, as it might have brought up both their temperature and mine. I kept coming back to one point as I thought matters over, and that is, that our motto this fall must be 'COLLECT, COLLECT, COLLECT.' You may underscore this several times for emphasis.

"We have a fair crop in nearly all of our territory and an exceptional price. If the men who are hard up cannot get into shape under these conditions they never will, and the quicker we clean them up and get them off our books, and, if necessary, write the loss off, the better for all concerned. We know nothing of what next year's crop is going to be, and we know nothing of the price we will get. One thing, however, is certain, the law of action and reaction is bound to work, even if there is a war, and the higher the price of wheat goes now, the lower it will drop after the war.

"Some authorities claim that very soon after the war wheat will drop as low as seventy-five cents per bushel. You can easily see what this means in the way of returns and debt-paying ability of your customers. You are doing the people in your territory a great favor by insisting on their getting out of debt now when they have an opportunity and insisting that they stay out of debt so that they will not have to carry a burden when the price drops and reaction sets in. War contracts have practically ceased, and readjustment has set in in earnest. The West will not feel it quite so soon, but it is coming just as surely.

"There is another side of the matter which we must take into consideration. This is a time when every bank has to take care of itself. There is no use of our running along feeling that if calamity hits us we can run out and get someone to help us, for each bank feels it has enough to do to take care of its own business, and if we do not keep in shape and get our supply of oil while it is going, we will be in the position of the Foolish Virgins (which we have all read about) a little later on.

"The first business of every individual and firm at the present time is to help win the war and the burden will be placed on the banks more and more as time goes on. It may be that business will have to stop to some extent to accomplish this, but whatever happens, the war must be won. If we do not win the war our business won't be worth much anyway; so it is more essential to win the war and stop some business for a time, than to be defeated and stop business permanently.

"Some of your customers will probably grumble if you draw the line on them, but we need not care about that. If they cannot see the situation, and that it is for their own good to pay their debts, to go without things which they do not absolutely need, and keep out of debt under present conditions, they certainly are of no value to us as customers.

"SEPTEMBER 25, 1917.—Deposits are running up very nicely, in most of the branches. A few of the branches do not show any increase to speak of as yet, and only a few show any marked reduction in bills receivable. I will be glad when the farmers begin to pay up, for then we will know that we have the money. As long as we simply have it on deposit, it is always subject to call and we cannot judge how much is going to be paid to us. We must make a clean sweep this fall in some way."

This is the second of a series of extracts from letters to branch bank managers written over a period of twenty years by H. O. Powell, general manager of the Weyburn Security Bank, Weyburn, Saskatchewan, Canada.

Emigrants of American Industry

(*Continued from page* 202)

existing foreign trade in other countries as well as their market in the United States.

The indirect results of American expansion along such lines are also highly important. The establishment of American factories abroad usually means the export of American factory machinery. Factory machinery was exported from the United States last year to the value of about $250,000,000, a large part of which went into American factories established abroad. Had American manufacturers permitted their foreign competitors to retain the industrial field in their own countries much of this factory machinery would have been manufactured in such countries.

A *Stimulus to Buying Power*

THE establishment of American factories abroad also usually results in an immediate increase in wages in the countries interested, an improvement in the standard of living and a general stimulus to domestic prosperity, all with the result that the buying power of the people in such countries is increased to the manifest advantage of American exports in other lines. Newspaper dispatches report that the establishment of the Ford factory at Antwerp already has affected the entire labor situation in Belgium, raising the standard of wages and increasing the local demand for foreign goods.

All of this merely illustrates the fact that, after all, the manufacturing industries of the world are more closely interdependent than may at first be realized and manufacturing for international trade, like international trade itself, cannot long be developed upon an uneconomic or artificial basis. Sooner or later manufacturing in any particular line will be carried on where and when the economic advantages dictate. It is for this reason that international trade tends more and more to become a matter of specialties in the various countries.

There is less actual competition between countries in international trade than at first appears. Sooner or later trade in any particular line goes to the country which can produce that line to best advantage. The immense increase in American exports in the past few years has been less at the expense of other countries than in the development of new lines of trade, trade in new products, or in the expansion of new industries. The foreign competitors of the United States usually are able to maintain their foreign trade in those lines in which they have excelled in the past, the chief exceptions being in those lines in which modern industrial development in this country has been more rapid and successful than in the competing countries.

NOR does it appear that there are any means of controlling this movement if it is desirable to do so. The manu-

facture of goods abroad by American concerns for import into the United States is merely a question of tariff. Mr. Ford cannot manufacture tractors in Ireland for import into the United States unless the American tariff permits tractors to enter free of duty or at rates of duty which render such imports possible. The same may be said of gunny sacks from India or any other such products which may be manufactured abroad for the American market.

American labor has suggested that patents be granted manufacturers in the United States only on the condition that goods manufactured under them shall be manufactured only in the United States. Naturally other countries could and probably immediately would shut out American goods manufactured under such conditions or would refuse to recognize American patents so limited. The fact is that there is no remedy because there is no method of successfully interfering with economic progress. Moreover, this general movement is reciprocal. While American manufacturers are now establishing factories in other countries, foreign manufacturers have long been doing the same thing and for the same reasons right here in the United States. It requires only a casual examination of the files of the Alien Property Custodian in Washington to demonstrate how extensive this movement was from Germany immediately before the World War. Other countries have done the same thing. Even at present British automobile manufacturers are establishing American factories. Dutch aeroplane concerns have established giant factories in this country. French perfumers, Italian maccaroni makers, even Mexican hot tamale makers have followed suit. It so happens that at present the tide has merely turned the other way.

The Case for Character Loans

(*Continued from page* 196)

approximately 87 per cent of applications during the last twelve months. There are to come to you the professional qualifier, the pyramider, and the con man. You are going to have diamonds flashed beneath your nose that are as large and perhaps as nearly worthless as any in existence. You are not going to run a pawn-shop, but you are going to have an opportunity to do so.

This brings us to the manager you have chosen for your loan department. Unless you have a very carefully trained employee available, please do not make the mistake of thinking you can pick out a junior who is about due for a raise, and make him your small loan man. Like the gentleman who purchased the highest priced set of clubs and wagered he could learn golf in three weeks—it simply cannot be done. You will make no mistake about the importance of this position. You will pay a good salary and secure an individual who has had training and experience—emphasis on the latter—in the making and collecting of deferred accounts. Your manager is a shrewd judge of collateral and human nature. He will know how to discount references—even a credit bureau's report often requires a double check.

"His Job Is No Cinch"

SPECIALISTS in personal loans seem to agree that an advance exceeding 20 per cent of an applicant's yearly income is poor policy. In the handling of endorsed notes most banks agree that a minimum of $100 is practical. A loan is ordinarily not made unless sufficient to consolidate all of the borrower's present indebtedness. Loans for speculation are not made, nor for luxuries. Even in the case of many necessities which the applicant wishes to purchase, loans should not be approved unless the borrower has from 15 per cent to 20 per cent of the purchase price. This rule is followed successfully by many conservative installment houses.

Everything considered, the small loan man must be a patient soul and a specialist in handling and retaining details easily. His job is no cinch.

Among the various plans for handling personal loans now in operation in our various states the savings loan plan is perhaps the most common, although it requires the installation of special savings accounts. Under this plan the bor-

rower signs a note due in one year and agrees to open a savings account and deposit therein at regular monthly intervals one-twelfth of the face of the note. Should the customer fail to make the deposits promptly the bank may declare the balance due and payable. Ordinarily from $6 to $8, representing interest and charges in advance, is deducted and the customer receives in cash $92 or $92. In addition, he receives 3 per cent interest which accrues on his savings account at the end of his contract. Certain banks insure co-makers against the death of the borrower. This apparently is an excellent advertising feature and the small percentage of loss is overcome by added volume.

Coupon System Also Used

It should be pointed out that borrowers under the savings plan actually take pride in making the payments more promptly and in being the possessor of a savings account. It is argued that for this reason the savings plan is worth the expense of maintenance; that it ultimately impresses customers with the value of thrift.

On the other hand, the coupon system, which does away with the savings feature, by using a master note and small coupon notes attached for each payment, is being used in some instances.

It is found that from 80 to 95 per cent meet their payments promptly. Approximately 39 per cent continue the savings or checking account after their loan is liquidated; 30 per cent renew their loan; and the remainder migrate. These approximates are the average as reported from sixteen banks who have been operating in this field for three years or more.

The Personal Touch

Going a step further, we receive the following data from sixty-five banks and their branches in the United States now featuring small loan departments:

14 per cent tried out the plan and found it not satisfactory.
21 per cent have had four or more years' experience and report favorably.
30 per cent are just beginning.
35 per cent have had from one to four years' experience and report favorably.

It is noticeable that certain banks, due to location or lack of proper publicity, are unable to secure a sufficient volume in loans of this type. It is the general consensus of opinion that in order to meet the expenses attendant on such special departments a volume of $100,000 should be secured. Investigation costs and advertising form the two large items of expense. Newspapers, especially the evening editions, movie ads, and attractive folders are producing mediums.

Certain financial economists mention indirect results of the small loan plan, such as the occasional securing of large accounts from companies who appreciate the service the bank is rendering their employees. New individual contacts and the hitherto unfelt friendliness on the part of the working public are undoubtedly resulting benefits.

It is consistent with prudent and modern banking principles to educate the great mass of American men and women on proper financing methods. A bank's experience is worth much to the community. There is no more effective method of actually putting this thought into action than through the small loan department. Today's small borrower is frequently the man who has never had proper advice on handling his financial affairs. Concerted action of the banks in educating this class of the public may produce noticeable improvement in economic conditions. There are many who are now beginning to appreciate this new personal touch in banking—this forward step of the banking fraternity toward a more perfect union of labor and capital.

Canadian Deposits

Demand deposits in chartered Canadian banks during June amounting to $670,838,214 were 4 per cent less than a year ago, according to a report issued by the Department of Commerce. Notice deposits totaling $1,466,105,095, declined 1 per cent and current loans in Canada amounting to $1,319,840,040 increased 11 per cent.

In every issue of the Journal, there are facts, ideas and viewpoints which will explain to your directors the significance of the many new banking developments. A group subscription will place all this information in their hands, each month. Group subscriptions are now placed by 1200 banks.

Annual Convention

(*Continued from page* 206)

cisco on Sept. 30 and a tea and reception at the St. Francis Yacht Club.

There will be a trip through San Francisco Bay and the Golden Gate and a tour of Chinatown under the auspices of the Chinatown Chamber of Commerce.

Especially for the ladies attending the Convention there will be a Peninsular trip, with a garden party and reception at the Burlingame Country Club.

An elaborate and unusual entertainment at the Dreamland Auditorium has been planned.

The annual American Bankers Association Grand Ball will be held at the Civic Auditorium.

Los Angeles Will Entertain

SPECIAL arrangements have been made by the Los Angeles Clearing House Association to entertain all delegates to the San Francisco Convention of the American Bankers Association who can visit Los Angeles, either going to or coming from the Convention. An announcement by the Clearing House Association says:

"A committee has been appointed by Henry M. Robinson, president of Los Angeles Clearing House Association, consisting of the following: W. D. Longyear, vice-president, Security First National Bank, chairman; Frank C. Mortimer, vice-president, Citizens National Trust and Savings Bank, acting chairman; J. R. Page, executive vice-president, California Bank; V. H. Rosetti, vice-president, Farmers and Merchants National Bank; Ben R. Meyer, president, Union Bank and Trust Company; E. J. Nolan, president, Bank of America of California; H. R. Erkes, vice-president, Bank of Italy National Trust and Savings Association.

"A number of special trains are scheduled to stop at Los Angeles for at least a day, and it is hoped that delegates coming by steamship will also plan to avail themselves of the hospitality being planned for them by the Los Angeles Clearing House Association. The invitation, of course, includes, not only the delegates themselves, but members of their families, as well.

"Headquarters will be maintained at the Los Angeles Biltmore and the Hotel St. Francis, San Francisco. A reception committee will meet trains and steamers on which delegates may be arriving, and the entertainment plans include automobile tours about the city and surrounding territory, golf at a number of well-known country clubs, and visits to motion picture studios. Delegates who can avail themselves of the invitation are requested to advise Frank C. Mortimer (acting chairman), 457 South Spring Street, Los Angeles."

The High Cost of Country Banking

(*Continued from page* 207)

written and twenty-four deposits made in a year, losing the bank $14.83. There are also the not inconsiderable number of accounts which result from a person writing checks on the bank and rushing in before they are cashed to cover them. Such accounts may be said to have no balance, but considerable expense. Of course, such accounts have long since been ruled out of most city banks.

Majority Made Money

THE average balance for the group ranging from $50 to $100 was $67.25. The average number of checks written per account was fifty-seven, costing $2.14; the number of deposits were fourteen, costing $1.14, and the average net loss per account was $.51. A majority of the deposits in this group made money. Only 20 per cent of the accounts were so active as to lose money.

It is interesting to note that in the group under $50 there were nearly twice as many checks and deposits per account as in the $50 to $100 group.

The average customer in the group

from $100 to $500 had $754 on deposit and the account was worth $19.54 net profit to the bank. The average number of checks per account was 195 and deposits forty-two. In this group were a number of inactive accounts which were very profitable to the bank and one account of $900 charged with 1248 checks and 324 deposits in a year which lost the bank $36.15. Many of the merchants with heavy daily items carried accounts in this group.

The group over $1,000 averaged $1,825 deposits. The average net profit per account was $45.37. All accounts in this group were profitable, including very active ones. The average number of checks per account was 524 and deposits 139.

A Mysterious Process

IMPOSITION on banking service is habit with most people. They may deposit money regularly only to check it out in a few days, never realizing that the bank is losing money on their accounts. To many people banking is a mysterious process whereby money begets money as it passes through the bankers' hands.

The old idea of making a bookkeeping and auditing institution out of the bank must give way to economy. Many banks advertise the advantage of paying all bills by checks. The primary function of a bank is for safekeeping of money, not to give receipts. One banker of my acquaintance advertised for two years with the same advertisement exhorting people not to carry money in their pockets, but to put it in the bank. People should carry enough money in their pockets to pay ordinary expenses. It is the surplus money which should be carried in banks, where it can lie until some special need arises. The habit of writing a few one dollar checks daily for pocket money does the bank harm and is no advantage to the depositor. It takes his time, the merchant's time and costs the bank heavily.

The example of a mid-western bank may be given as illustrative of the effect of service charges. They established a charge of $.50 per month for accounts which averaged less than $100. There was, of course, much grumbling and even swearing at first. Some took their money out. Many of the low account patrons built their accounts above $100. Some preferred to pay the $.50 for the banking privilege and let their accounts run under $100. The net result was that the bank actually increased its deposits slightly, and eliminated much expense.

Banking Costs Not Fixed

SERVICE charges should recognize inactivity. Any account against which no checks are written for the month should not be service-charged. No charge should be made for deposits. The child who wishes to have an account and add to it from time to time should not be discouraged. Likewise the poor person who has a few dollars which he does not wish to keep on his person or at home, but who does not wish to check against it, should not be penalized.

A good method of charging for services, least irritating and fairest to all, is a charge of five cents per check cashed on all accounts averaging under $100. A bank in Oklahoma has accounts bracketed in gradations of $10, allowing one or more checks per month according to the size of the account, after which a charge sets in.

Roughly and over a long period the three costs of a bank, incidental, tellers and bookkeepers and taxes, tend to adjust themselves to the size of deposits and the number of items handled. Even the taxes are adjusted to some extent by changes in the capital stock, which are the bases of taxation. If there are less unprofitable accounts in the long run there will be less incidental, clerical and tax expense. Unlike railroading, the costs of banking are not fixed, at least not to the same extent.

Canada's Wealth

The national wealth of Canada is placed at $27,687,000,000 in 1927, an increase of $900,000,000 over the previous year in a report published by the Dominion Bureau of Statistics. The per capita wealth is estimated at $2,909.

According to the latest figures of the Bureau of the Census the national wealth of the United States in 1922 was estimated at $320,804,000,000 and the per capita wealth was $2,918.

Brokers' Loans and Bank Deposits

(*Continued from page* 210)

tinuing. The prosperity of the country as evidenced in its bank deposits has been sufficient to permit the diversion of a large amount of funds into investment channels and still maintain the high level of the funds entrusted to the banks.

The concentration of surplus corporation funds in the call money market and the adoption of this type of investment by individuals has become a familiar development in American finance. The country has become accustomed to seeing high rates for call money to finance security transactions produce the credit facilities required by the stock market. But it was not until March that call loans other than those made by banks reached the proportions that clearly indicated the leading position in the money market assumed by these lenders.

Loans by Others Climb

IN the following table brokers' loans by banks and by others than banks are shown for periods comparable to the call dates for the condition of all banks in the United States as compiled by the Federal Reserve Board:

	Brokers' Loans By Banks	By Others
1927—June ...	$2,257,000,000	$877,000,000
Dec.	2,636,000,000	985,000,000
1928—June	2,616,000,000	1,744,000,000
Dec.	2,874,000,000	2,319,000,000
1929—March ..	2,800,000,000	2,879,000,000

These figures chart the flow of non-bank funds into the call money market. They show the climb of loans to brokers by others than the banks of the country from a little more than a third of the total of such loans to more than half of the total. By March the loans by others had forged ahead of the bank loans. At the end of July brokers loans by others amounted to $3,058,000,000 while similar advances by the banks totaled $2,901,-000,000.

A Key to the Decline

THERE apears, then, a key to a substantial art of the decline in total deposits in the March quarter and a reason for the slowing up in the growth of deposits if existing conditions continue. Brokers' loans by others advanced more rapidly than bank loans for the same purpose. This resulted in a decline in the level of all bank loans which in turn produced a falling off in deposits, since it removed a cause of deposits. It is a reasonable assumption that the extent of brokers loans by others than banks will bear an important relation to the future rate of growth of bank deposits.

Of course it cannot be contended that call loans made by others than banking interests constitute the sole force determining the rate of growth of bank deposits. No attempt has been made here to show the course of demand and time deposits. High prices for stocks have diverted funds from time deposits to security investments with a resulting reduction in bank investments. There has been a contraction of interbank deposits as banks have mobilized their resources to avoid recourse to reserve bank accommodations. Increased postal savings deposits have shown the effect of local conditions in some instances. These and other factors react upon the volume of bank deposits.

But what the public hears discussed are bank deposits in general. It is evident that loans to brokers by others than banks play an important part in the total volume of deposits. A slowing up in the rate of expansion of bank deposits may be attributed in great measure to developments outside of the usual course of banking while banking itself continues its orderly progress.

Affecting Commerce

THE Commission on Commerce and Marine of the American Bankers Association has issued a pamphlet on developments in domestic and foreign affairs having a bearing upon the commerce of the Unted States. The following subjects are included:

Domestic Affairs: American merchant marine; American railroads, railroad consolidation; railroads and automotive transportation; aviation; congressional legislation that might affect American trade and commerce, Mississippi flood control act, Boulder Dam legislation, foreign trade zones; brokers' loans; American agriculture. Foreign conditions: stabilization of currencies; reparations; Inter-Allied debts; documents used in carrying on international commercial operations, uniform bills of lading, protection of letters of credit.

Colonel James C. Roop of Pennsylvania, the newly appointed Director of Budget, at his desk in the Treasury Department

Railroad Finance

(Continued from page 222)

Thus the Van Sweringens by a quick market dash scooped in the Wheeling & Lake Erie, held it a few months, carved it up as to shares three ways between their own railroad group, the Baltimore & Ohio, and the New York Central, and then took it back. Latterly, the Department of Justice being drawn in, the announcement has been made that the Alleghany corporation and the Nickel Plate have trusteed title to it to await further action.

During many long months, while the commission studied and listened, L. F. Loree held an option on the Buffalo, Rochester & Pittsburgh, with the object of tying it to the Delaware & Hudson. The option expired while the commission considered; and between two days the whole road was neatly bought up in the Van Sweringen interest, only to be passed in toto to the Baltimore & Ohio.

The commission, perhaps doubting its own legal power, can only set going the mechanism of another investigation when it learns of such daring. And the number of investigations it now has pending actually run up to three figures, each one perceptibly slowed down as new ones start.

RAILROAD controls have been shifted so fast that even the commission records are futile for describing them. The main fact remains that in two years, for all practical purposes, the Van Sweringens have put through the mergers they desired, have put wider and wider scope on their original plans, and left the commission seemingly sidetracked. The lesson is not lost in the financial world.

The Pennsylvania, facing somewhat similar official obstruction, has promptly created the Pennroad Corporation; L. F. Loree, blocked in some tentative southwestern linking of the Kansas City Southern, St. Louis Southwestern, and Missouri-Kansas-Texas systems, now has the Delaware & Hudson in process of conversion to investment operation. The great rivalries, along with the obvious compliance with sound economics that probably directs increasing railroad merger, proceed, while the commission exercises control of the situation less and less.

Thus it allowed the New York Central to issue new stock at par to stockholders, though the old stock was selling on the market at much above par. It let the Baltimore & Ohio do much the same thing. It refused a like right to the Van Sweringen owned Chesapeake & Ohio. This was going a little too far. The goverment tribunal beginning to get some glimmerings of where its course was trending, allowed a re-hearing and reversed itself quickly.

Of late, the commission has been turning more and more to the government branch, which must finally treat financial conduct if that is to be treated by government, the Department of Justice. Possibly the true desire of its more experienced members is to have this finance supervising job taken completely away from them. They are aware in part of their own position.

The bright spot is that the railroad financial leadership has clung steadfastly to a complete apprehension of what the great general public needs, and is solely interested in getting. That is, better and cheaper railroad service with all its concomitants of sound finance, justice as between shippers and regions, and progress. Ownership and financial organization is the last point on which public interest focuses. So, quite gently and politely, final railroad management has put the commerce commission in its proper place in relation to ownership and passed on to its functions accordingly.

The Chain Store Side

(*Continued from page* 229)

turns its stock 4.3 times per year, which means once in every 85 days. Observing that the independent department store which competes with this chain must purchase its merchandise from the wholesale dry goods house, it follows inevitably that we must add the days required for wholesale turnover to the days required for retail turnover in order to determine the time which elapses while this merchandise travels from the manufacturer to the consumer. To reduce it to its simplest terms, this means 281 days.

Assuming that the carrying charges of the average inventory are fairly set at a rate of 6 per cent, let us consider for a moment what the above illustration means in dollars and cents. The average inventory for the chain department store group for the year in question was $20,042,480. Its carrying charges, with a turnover every 85 days, amounted to $280,045.28. Based upon an equal inventory, and with a combined total turnover of 281 days, the wholesaler and individual retail dry goods merchant must have paid a carrying charge of $925,796.65 upon the same inventory.

Not Bent On Destruction

OF course this is only one illustration of the efficiencies secured by the new relationship between the wholesaling and retailing functions which we designate as the chain store system. It suggests not that the chain stores are bent upon destruction of older agencies of wholesaling but rather that the inescapable and continual battle for greater efficiency in distribution will not sustain an entity unless it serves with the greatest possible efficiency.

With this in mind, the banking problem for the chain store merchant reduces itself to a question of determining what method of banking makes the greatest possible contribution to efficiency in distribution. I fully recognize that this does not comprehend the entire banking problem but it does comprehend it from the view point of a merchandising institution whose sole function is that of efficient distribution.

It may well be that to carry this approach to its logical conclusion, under present circumstances, would mean to deny the commercial banks an adequate return for the services which they render to chain stores. The progressive chain stores of America would be the last to knowingly suggest or profit by such a condition. If the present rate of withdrawal of chain store funds from local depositories is so rapid that it permits no balance to accrue upon which the banker may earn a fair return for the service he renders, then such a condition is wrong.

They Expect to Pay

BUT to say that it is wrong may not necessarily suggest that the chain stores must leave more money on deposit with local bankers. It may suggest that the local bankers must work out a method or plan under which chain stores shall pay for their banking service just as they pay for any other service, namely, upon the basis of what it costs, plus a reasonable profit.

The chain stores are dedicated to the task of providing every human being with the necessities of life, with as many luxuries as possible, in the most efficient manner and at the fairest possible price. In accomplishing this purpose I am sure they expect to pay a fair price for every article of merchandise and for the institutional services which they require.

Changing methods of distribution may require a new and more advanced relationship between the chain store and the commercial bank but, even so, there is no fundamental problem involved that cannot be solved by candid consideration and friendly discussion. The chain store and the bank are both concerned with the fundamental prosperity of the nation. Both must recognize that no system which perpetuates waste can expect to

survive. In seeking the greatest possible economic good for the greatest number of people, they should work out their problems together in a desire for mutual understanding and helpfulness.

Acceptances for Short Term Investments

(Continued from page 230)

others that have never owned an acceptance.

It is to this kind of banker, perhaps in the country institution, if west of the Hudson River and east of the Sierras, that can be asked the question, "Why do you not buy bills?"

Experience has shown that in almost every case one of three answers would be given. The first would be "we are not familiar with this type of investment." The second would be "we cannot afford to buy them, the rate is too low" and the third would be "we keep our surplus funds in New York call loans."

Triple Secured Credit

THE channels through which complete information concerning bankers' acceptances may be obtained are so numerous that a bank has no difficulty in completely familiarizing itself with this type of investment. The Federal reserve banks, the American Bankers Association, the American Acceptance Council, the bill dealers or the country banks' city correspondent will comply with any request for information.

"The rate is too low." Are we to believe that there is more interest in the yield than in the security of the investment? Referring once more to commercial paper, when the rate for the best names is 5 per cent no prudent banker will admit passing up this grade of security, for paper, that, because of the poorer credit, has to be offered at 7 per cent. The bankers' acceptance is a triple secured credit obligation and carries a rate that is in keeping with its quality.

The fine type of prime acceptances now available for investment bear a rate better than that obtainable on any bank balances, equal to or better than on government securities and almost as good as on commercial paper.

No Worry About Liquidity

NATIONAL banks are not limited by statute in the amount of prime eligible bills that they may purchase and the same freedom exists for state banks in most of the states. No matter of what modest size a country bank may be it may easily carry a substantial portfolio of bills and, over a period of years, show an actual profit over the return on any other secondary reserve investment that it might have made in the same period.

The following exact copy of the statement of one country bank is illustrative of what may be done by other banks:

CONDENSED STATEMENT

RESOURCES		
Loans and Discounts...........		$124,917.64
Overdrafts		1,290.21
United States Bonds Owned.....		50,000.00
Stock in Federal Reserve Bank..		2,400.00
Banking House and Real Estate.		4,000.00
Bank Acceptances...	$265,854.25	
Cotton Acceptances..	54,154.62	
Grain Acceptances...	3,970.19	
Cash-Sight Exchange	119,678.49	
		443,657.55
Redemption Fund U. S. Treasurer		2,500.00
Total Resources.............		$628,765.40
LIABILITIES		
Capital Stock..................		$50,000.00
Surplus		30,000.00
Undivided Profits, net..........		13,607.27
Circulation		50,000.00
Deposits		480,658.13
Unearned Discounts		
Bank Acceptances............		4,500.00
Total Liabilities............		$628,765.40

This statement reveals a highly liquid condition. Within a banking day its entire holdings of bankers' acceptances could be converted into cash if necessary. The head of this bank has no worry about the liquidity of his institution.

Never Among Frozen Assets

COMMENTING on the necessary closing of several banks in his state, a Superintendent of Banking recently observed, "if these banks had kept liquid by carrying a good volume of bankers' bills they would have weathered their difficulties. Bankers' acceptances are never found in a list of frozen assets."

The third reason for not buying bills

may be traced to the extraordinary attraction which the New York call money market has for funds. A Stock Exchange rate of 8 per cent, 10 per cent, 15 per cent will incline some interior institutions to sell securities and put funds into the call money market.

These loans, it is conceded, are well placed by city correspondents, amply protected by collateral and in normal circumstances are readily convertible if the occasion demands, but there is nevertheless, a question how large a part of an interior country bank's funds should be used for this purpose, regardless of how attractive the rate may be.

Investment in bankers' bills of maturities running from a few days up to six months may be made according to the desire of the banker, having in mind his anticipated future cash requirements. If he has some special deposit that will not be drawn on, for say forty or fifty days, he may, if he wishes, buy bills that will mature on the exact day of the withdrawal or if unexepected demands are made, he will find it possible to turn a portion of his bill holdings back into the market at once and so reestablish his reserve position.

Reserve System Holds Half

FROM August to January every year there is a large increase in the volume of outstanding bills. Most of this increase is occasioned by seasonal agricultural demands to move wheat, cotton, tobacco and many other national harvest yields.

When the wheat or cotton farmer sells his crop, loans are paid, his bank's deposits increase and the banker has funds to invest. What more normal course is open to him than to put the wheat farmers' money into wheat acceptances or if in the South, the cotton planters' deposits into cotton acceptances?

Such bills have been accepted by great city banks that have worked out the cotton or wheat financing and have created a most desirable high class form of investment for the banks in the agricultural belt.

The present market for bankers' acceptances is too closely confined. Slightly more than 50 per cent of all the bills now outstanding are held by the Federal Reserve System, for their own account or for the account of foreign central banks. Where state laws permit, savings banks and life insurance companies buy bills in moderate amounts while another portion of the whole volume is taken up through purchase by corporations, colleges, trustees and individuals.

THE third group which includes city and country banks, large and small, throughout the United States, carry only a negligible amount of purchased acceptances, not exceeding at any time more than 12 per cent of the total in the market.

The position of the bankers' acceptance in the investment field is unassailable. It is now recognized as the outstanding instrument of credit in our world wide foreign trade operations, the indicator of dollar preeminence in every foreign market where we buy or sell, its use and operation is closely guarded by the Federal Reserve Act and the regulations of the Federal Reserve Board, and it is the direct and unequivocal obligation of the best banks in the country, the equivalent of a certificate of deposit. Could anything more be desired in investment paper?

The Texas Cotton Credit Plan

(Continued from page 221)

and application of the proceeds as might have been agreed upon between the member bank and the Federal reserve bank or, in the absence of an agreement, to a special collateral account.

It is frequently necessary for papers evidencing title to cotton to be transmitted from the town in which the member bank is located to another town for substitution of one form to another. The trustees are specifically permitted to forward securities which they hold to compress companies, railroad companies, or other carriers, to local banks or to special and dependable correspondents located in other cities for such purposes of substitution.

How the Plan Works

IN practice the plan works somewhat as follows: The member bank expecting to use the plan designates the trustees it desires to act. The trust agreement is executed by the trustees and the member bank. Arrangements for the line of credit desired are made in advance. When actual borrowing begins, the member bank selects the notes and acceptances it desires to offer and delivers the collateral securing the same into the possession of the trustees. The notes or acceptances, together with the pledge of securities form, are then transmitted to the Federal reserve bank with the usual form of application for rediscount.

This procedure is repeated from time to time as new notes or acceptances might be offered. Thereafterwards, the trustees may, if they desire, turn over each morning the contents of the lock box to the agent designated as heretofore stated, who will handle the details during the day. He will have prepared by the end of the day, the daily report, the pledge of securities form, the surrender of securities form and the letters of transmittal for substitution. These papers, when thus prepared, will require only the verification and signatures of the trustees.

Fine Advantages

THE following advantages result from the plan:

First: The collateral remains in possession of the directors of the borrowing bank who are, naturally, interested in its welfare.

Second: Outsiders, and especially competing institutions, are not apprised of the borrowing bank's business.

Third: The power conferred upon the trustees to intrust the collateral during any business day to an agent permits the handling of all transactions without delay or inconvenience to the bank's customers and in virtually the same manner as it would be handled if not hypothecated.

Fourth: The powers of exchange and substitution of collateral lend flexibility which enables the borrowing bank to function as smoothly as though the collateral were not hypothecated.

Fifth: While permitting the latitude described the legal status of trustees and cestui que trust is preserved so as to protect the lender.

Can Be Extended to Grain

IN addition to these advantages there are several benefits which the plan will bring about.

It will offer a simple and practical method of obtaining credit from the Federal Reserve Bank of Dallas against the actual paper arising in the movement and marketing of the cotton crop.

The availability of this credit will enable the banks located in Texas to handle a larger volume of this business. It is extremely desirable business and a large part of the financing is handled by banks located outside of the Eleventh Federal Reserve District.

Member banks who desire to do so may greatly improve the present method of financing this business by getting a larger volume of this class of paper in such shape as to be eligible and acceptable to the Federal reserve bank. This should result in minimizing losses to member banks.

The plan will tend to bring about a more uniform method of financing the movement and marketing of cotton.

The facilities of the Federal reserve bank being always available will tend to stabilize money rates whether the credit is actually used or not.

Proper use of the plan will tend to bring about a more orderly marketing of the cotton crop.

While the plan has been adopted so far only to the financing of cotton, there is no reason why it could not be extended to cover grain or other staple agricultural commodities. As soon as we have obtained more experience we expect to make such extensions.

Proposed Amendments to Association Constitution

(Continued from page 254)

amendment to the Constitution abolishing the Clearinghouse Section.

Amend By-Law VI by adding at the end thereof the following:

Clearinghouse Functions and Banking Practices

"Sec. 3. There shall be a Commission on Clearinghouse Functions and Banking Practices, consisting of fourteen members—nine to be appointed by the President of the American Bankers Association, and the remaining five members to consist of the vice-presidents of the four divisions of the Association—National, State, Savings and Trust—and the last living ex-chairman of this Commission. The members thus appointed shall serve for one year and/or until their successors are appointed. Two-thirds of the appointive members shall be re-appointed.

"The Commission shall annually submit to the President of the American Bankers Association the names of five candidates for appointment, of which number he shall appoint three. Officers of bank members of the American Bankers Association, Clearinghouse Managers and Clearinghouse Examiners shall be eligible for appointment and such managers and examiners need not be qualified as delegates. No appointive member may serve for more than three consecutive years.

"For the first year, the Commission shall consist of thirteen members. The appointive members shall be the nine members of the Executive Committee of the Clearinghouse Section, as constituted at the time that section ceased to exist.

"The Chairman and also the Vice-Chairman of the Commission shall be elected to the Commission from the appointive members.

"The Chairman of the Commission shall have the power, subject to the approval of the Commission, to appoint such Committees as he may deem necessary to carry out the functions of the Commission.

"The activities of the Commission on Clearinghouse Functions and Banking Practices shall embrace all matters relating especially to work which may be of interest and advantage to the members of this Association which properly come within the scope of clearinghouses, both city and national, and all other matters concerned with details of practical banking operation and management.

"This Commission shall cooperate with the four principal divisions of the American Bankers Association in special research work and assist these divisions in any special matters which any division may charge to it."

Further Amendment to By-Law VI

Amend Section 1 of By-Law VI by adding at the end thereof the words "except as otherwise provided in this By-Law."

Amend Section 2 of By-Law VI by inserting after the first sentence thereof, the following sentence: "The members appointed by the President of the American Institute of Banking Section and the member of the State Secretaries Section need not be qualified as delegates."

It should be observed that Section 1 of By-Law VI provides that "Members of Commissions must have the same qualifications as delegates." Section 2 creating the "Public Education Commission" which was subsequently added, provides for certain appointees of members of the American Institute of Banking Section by the President of that Section and also for the appointment of one member of the State Secretaries Section. As some of such appointees may not hold such office in a bank member of the American Bankers Association as to be qualified as delegates, the purpose is to provide specified exceptions to the general provision that members of these Commissions must have the same qualifications as delegates.

Three Crops

"YOUR fundamental purpose," said President Hoover in addressing the members of the newly created Farm Board, "must be to determine the facts and to find solution to a multitude of agricultural problems, among them to more nearly adjust production to need."

About the time that this statement was being read throughout the land there was also being read the announcement of a "real panacea for agricultural ills." An industrial engineer of Chicago is said to be raising three crops per year on a dozen farms located in different sections of the United States.

Declaring that crops are more valuable while green, he cuts them while they are lush, instead of waiting until they are ripe and matured, and immediately dries them by a soft coal heater and a 20-foot blower fan. By this method it is claimed that hay or alfalfa cut in the rain may be baled and ready for the market within an hour. Upon harvesting a green crop another is planted.

Obviously there are many crops to which the method cannot well be applied, but even with a fair degree of adoption of the plan by farmers throughout the country there is in the plan an additional something to complicate the work of the Federal Farm Board Future generations may rise up and call blessed the man who makes two blades of grass grow where one grew before, but in this generation that extra blade of grass may not call forth unmixed blessings.

Profits and the Census

(Continued from page 245)

will be doubled, if not trebled, at the coming census.

A census of manufactures, covering production in the year 1929, will be taken in 1930 along with the regular decennial census of population. A census of manufactures in the United States was taken as early as 1810. From 1840 until 1900 it was taken decennially, from 1900 to 1920 at five year intervals, and since 1920 the canvass has been made biennially.

For census purposes 340 manufacturing industries are recognized. Certain general statistics, applicable to all, such as number of wage earners, wages, value of products and similar information, are compiled from the data collected. In addition a great amount of special and detailed information in regard to products is compiled.

The story told by the censuses taken in the present century, and particularly those taken since the World War, is one of increasing output per wage earner. The manufacturing industries of today produce a considerably greater quantity of products per wage earner than they did a quarter of a century ago. Each increase in production, of course, has been accompanied by marked increases in the use of power-driven machinery.

Something Entirely New

HERETOFORE in the evolution of the census from the meager beginnings of 1790, when only the heads of families were counted, down to the modern comprehensive canvasses of population and property inquiries in the field of specific business statistics have stopped short with production. For many decades the government has gathered statistics concerning population, agriculture, manufactures, mines, quarries, births, deaths, marriages, divorces, wealth, indebtedness, taxation, municipal and state finances, current business and many other phases of the industrial and social life of the country.

But the government has never gathered facts and figures to help in tracing the history of commodities in their movement from the producer to the consumer. The next step will be taken in 1930 under an authorization in the bill providing for the decennial census passed at the last session of Congress. The bill provides for a census never taken before—a census of distribution.

This new census is expected to form the basis of facts and figures from which to find out what the distributor of goods spends his money for; what it costs to sell, deliver and collect for individual items and what these particular services add to the cost of distribution. This will make possible a complete picture of business—the cost of production and the cost of distribution.

THE first census of distribution will be strictly a merchandising census. It will be limited to the handling of commodities by the wholesaler and the retailer. The government will first concentrate on the task of obtaining the facts about what happens to actual merchandise as it passes from producer to consumer. Later on the field may be broadened to include investigation into the costs of the so-called "service industries"—such as the activities of bankers, brokers, security exchanges, realtors and the like.

Besides the inquiry into the manner in which "consumer commodities" are handled there is to be a census of industrial distribution in connection with the regular census of manufactures. In this inquiry the government will seek facts about manufacturers' purchases of raw materials, semi-manufactured articles, machinery and other equipment and supplies for the maintenance of the plant.

This will round out the modern census as it will be taken in 1930. The information it will make available will enable the banker or the business man to add another chart to his maps of future business. He will know not only what are the increases in the population and wealth of the country, and the rate of expansion in production and wages, but what it costs to do business with the consumer. Consequently a more accurate knowledge of costs will make possible more certain forecasts of profits.

Irregular Loans, Commonly Called Float

(*Continued from page* 250)

both city and country banks, large and small, I would say that the ratio of those that charge on uncollected items deposited to non-interest bearing commercial accounts could be changed from 60-40 as was disclosed by my survey, which was made among our larger banks, to 90-10, and probably not 10 per cent are systematically making a charge. If considered on the basis of volume of business transacted, the percentage would change again, this time more favorable to making a charge, as in our larger cities banks are generally making an interest charge on their irregular loans.

I would suggest that every bank that has neglected this phase of its business review its accounts very carefully until it has discovered who of its depositors are its principal offenders. If it does not feel justified in immediately adopting a blanket rule that would apply to all of its commercial accounts alike, let it begin with its habitual offenders and make an interest charge to them in order to try out such a plan. If they resent the charge, and, in fact, if a few sever their relations with the bank, it will have the satisfaction of knowing that it has lost only business that was an expense to it.

A Dangerous Remedy

IN answer to the question, "Do you make an analysis of your checking accounts to which uncollected items are deposited, to see if the amounts so deposited are being withdrawn before they have been actually collected?" some very illuminating answers were received.

One bank reported that it does not analyze its accounts because it has a monthly service charge that includes whatever interest there might be on uncollected items. As stated elsewhere, a monthly service charge on small checking accounts is very practical, but as to making a monthly service charge on large accounts in order to cover whatever uncollected items that may have been deposited, is a dangerous remedy to use. The opposition to this plan from customers would be hard to overcome. I doubt if one customer out of every ten can be convinced of the justice of it.

A large majority of the banks whom I reach through my survey are making a regular practice of analyzing their accounts and particularly their most active ones. As one banker says, "We analyze our large accounts regularly but not the smaller ones." Another banker expresses the same thought in these words, "We go over our accounts regularly, giving special attention to certain very active ones, especially where deposits are made frequently and many checks are drawn during a calendar month."

That the practice of analyzing accounts is becoming quite general is evident from these reports for in only three cities contacted did I find that the banks there had done nothing to ascertain the profitableness or unprofitableness of their accounts. If this survey had been made ten years ago, the opposite would have been true.

Watching the Leaks

IN answer to the question, "Do you pay interest on commercial (checking) accounts without deducting from the amount on which interest is paid, items not yet collected although credited and shown in the depositor's balances?" The replies to this question were as enlightening as those to the previous questions.

Evidently banks generally are watching the leaks that are cutting down their earnings as they have never done before. From the evidence at hand it is safe to assume that the day has passed when many of our banks will longer tolerate making irregular loans without charging interest.

Only 7 per cent of the banks contacted are waiving an interest charge on items deposited to interest bearing accounts, 92 per cent are deducting for uncollected items, and one bank is following the plan of disregarding uncollected items that are deposited on the grounds that it makes a flat deduction of $2,000 from each commercial account on which it pays interest—the interest being computed on the balance in excess of $2,000. In other words, before a depositor receives interest he must first

have a free balance of $2,000 and then he will get interest only on his balance in excess of this amount.

This plan ought to be a good money-maker for those banks that can hold their business and at the same time pay interest only to those depositors whose balances exceed $2,000 and to them only on their balances in excess of this amount, as for example, pay .83 1/3 cents a month on a $2,500 balance at 2 per cent, and keep the customers satisfied. I cannot see how this solves our problem of irregular loans, for there will be many depositors who have no out-of-town items to deposit, but who will be penalized, and to penalize a bank's best customers is not a good plan to follow.

A much better plan would be to analyze each account and charge it according to the benefits the depositor receives.

The Businesslike Way

THE next question was, "If you make a charge on uncollected funds which have been credited to a depositor's account, do you charge your customary lending rate of interest, or a lower or higher rate?" A large majority of the banks contacted reported that they were charging their lending rate. Of those reporting, 10 per cent are charging from 1 per cent to 2 per cent above their lending rate. Two banks are charging from 1 to 1½ per cent below their lending rate.

Other banks reported that the rate was fixed by clearinghouse agreement. In a number of cases, there is a provision in the agreement that where an account upon being analyzed discloses excessive overdrafts, the banks may use its own discretion and charge its lending rate. An improvement on that rule would be to permit a bank to charge a higher rate if in its opinion a higher rate were justified.

It seems to me that the amount charged on these irregular loans ought never to be less than a bank's lending rate, and if anything it ought to be from 1 per cent to 2 per cent higher. If customers object to this higher rate, let them borrow in the regular way at the bank's lending rate, which undoubtedly would be more satisfactory to their bank. It would be the businesslike way to handle all such cases, to say nothing of the added safety it would give to the bank handling it.

No Charge on Small Items

IN answer to the following questions, "Do you find that the amount of work involved justifies you in making a charge on every small item, such as $5 or $10 checks, or have you a fixed minimum amount so that only on items above this amount a charge is made? What is your minimum?" I found that a majority of banks make no charge on these small items. Probably because the expense of levying the charge would be more than the interest collected. Of those banks that make an interest charge, it is usually based on a flat amount; for example, some banks charge 3 cents an item on all items under $50, other banks charge 5 cents flat on all items under $100. Just as banks disagree as to the cost of handling checks, they are not in accord as to what the flat interest charge should be on small uncollected items.

About 40 per cent of the banks contacted make no charge. Of this number, a certain percentage are getting the same results so far as their small accounts are concerned by charging a monthly service fee on all small accounts, in which the cost of handling these small items is included. One bank says, "that sometimes they charge," another bank says, "they charge only on large amounts." Two other banks have fixed arbitrary amounts below which they make no charge, one has set its minimum at $500, another bank at $3,000.

Many Waive the Charge

ANSWERING the question, "In computing your charge do you include the day an item is deposited, and also the day you receive returns?" practically all banks reported that they include the day all items are deposited, but do not include the day available returns are received.

In answer to the question, "Where a good customer objects to paying on uncollected items, do you insist on making the charge or do you waive it?" it was revealed that a large majority of banks not duty bound to make a charge by agreement with other banks, waive the charge, providing the account justifies it. As one banker writes, "We waive it generally." Another bankers says, "We usually waive the charge when customers object to it." Another banker states his position in these words, "Depend entirely upon how good he is. Our system is quite flexible." A northwestern banker says, "That depends on the customer's influence and affiliations. But we do not handle the account at a loss."

From the above questions it would appear that it is a general practice of banks to waive the charge every time a good customer objects to it, but this is not always the case, as the following quotations will show. As one banker says, "Our schedule of exchange rates, which are arbitrarily fixed by our Clearinghouse Association, has to be adhered to under penalty of a fine, hence there is no waiving for anyone, not even priests or ministers, nor charitable institutions—all have to pay." Another banker states, "The charge is obligatory to city depositors. Governed by Clearinghouse rules." Another banker says, "As a member of the local Clearinghouse Association, we are compelled to make a charge in accordance with its rules."

These quotations from members of clearinghouse associations could be duplicated in a dozen or more reports which came to me in answer to the question stated above.

As a whole, the answers made show conclusively that the tendency among those banks that act independently of other banks is to waive he charge, while with banks that are members of clearinghouse associations the rules of the association are strictly adhered to. These reports show that in not one case where a bank is a party to a clearinghouse association rule requiring that a charge be made, is it a practice to deviate from the rules.

In answer to the question, "Do you make a charge on all items in process of collection and which have been credited to an account subject to check, or do you waive this charge on accounts where items of this kind are deposited at infrequent intervals?" there is a strong tendency to favor the customer and waive the charge. As one banker says, "This depends on the individual. We waive it when it occurs at infrequent intervals." Another report on this question reads, "Where a good customer may three or four times a year draw against uncollected items, we do not make a charge." Other banks make no exception to their rules because of a clearinghouse agreement always to charge. One bank states its position very tersely, "No exceptions tolerated." Another leading bank has this to say, "Charges are made on all items whether deposited daily or infrequently."

Again it can be seen that there are practically no exceptions on the part of banks that are members of clearinghouse associations, which associations have rules requiring that a charge be made against all uncollected items.

In answer to the questions, "Do you deduct the Federal reserve bank reserve requirements in lieu of deducting for float?" seventy-five per cent of banks replied that they did not deduct the Federal reserve bank reserve requirements in lieu of deducting for float.

Some Salient Points

Here are some salient points worth consideration:

(1) That every time a bank advances its own funds in payment of an uncollected item or allows immediate interest on it, it makes an irregular loan for which interest should be collected.

(2) That the depositor is the only one benefited by irregular loans, and consequently should pay a reasonable charge for the service rendered him.

(3) That of those banks that have been making an interest charge on their irregular loans, not one is willing to abandon the plan after giving it a fair trial.

(4) That customers to whom the justice of an interest charge has been fully explained have accepted it as fair and are paying it willingly.

(5) That it is a bad precedent to waive charges to the "kicker" while charging customers who are willingly paying the charge.

(6) That as a general practice it is unbusinesslike to cash out-of-town checks and drafts of large amounts for strangers

as an accommodation, unless an interest charge is made that fully compensates the bank for the loan.

(7) That a bank's lending rate, or a higher rate, should be charged on irregular loans, for the full time, excepting only the day the proceeds come into the bank's possession in cash or its equivalent.

(8) That all accounts with balances in excess of what are designated as small unprofitable checking accounts should be analyzed individually and charged according to the benefits received, and not arbitrarily assessed according to what other accounts are charged.

(9) That the best way to handle irregular loans on small unprofitable checking accounts is by making a monthly service fee which is of sufficient amount to cover all costs of carrying the account, including interest on uncollected items credited for immediate use.

(10) That better results can be obtained through clearinghouse associations, or through various other groups of banks, than for banks to act independently.

These points stand out after an investigation of the question of irregular loans They show the way to a sound solution.

Supervision for Private Banks

EXEMPTIONS from government supervision enjoyed by private banks seems destined for attack, at least in New York State. Speaking before the recent annual meeting of the Otsego-Schoharie Bankers Association, United States District Attorney Tuttle of the Southern District of New York expressed the opinion that at the next meeting of the Legislature the State banking law would be strengthened in respect to such institutions.

Characterizing the portion of the New York State law dealing with private bankers as indefensible, Mr. Tuttle said:

"Section 150 undertakes to exclude from governmental supervision private bankers who do not hang out an exterior sign as such, do not allow interest on balances under the stated minimum and do not accept deposits which in any separate account average less than the stated minimum over a period of a year.

"This classification is wholly arbitrary and artificial. It has no relation to the security of the deposits or to the reasons which underlie governmental supervision. Evasion does not even tax ingenuity. Moreover, such a classification is not only over the head of the general public, but it rests on points of fact which the public has no means of ascertaining. Hence it becomes a sort of trap for the average depositor, who naturally takes for granted the existence of governmental supervision.

"It shocks common sense that governmetal supervision should follow from an exterior sign containing the word 'bankers,' and yet not from the use of the same word on all other forms of advertising or on checks, bank books, deposit slips and general stationery." If advertising as a bank entails governmental supervision because of its implication of the existence of such supervision, the implication follows more forcefully from such advertisements on all the stationery of the bank rather than from a mere sign over the door.

"The public can know nothing about the average annual deposits in the separate accounts or about the allowance of interest on given accounts; and the very fact of a classification turning upon such hidden facts entitles the public to assume their ascertainment by a vigilant and potent banking department."

Regional Trust Conference

OUTSTANDING problems in up-to-date fiduciary banking are on the program for discussion at the sessions of the Seventh Regional Trust Conference for the Pacific Coast and Rocky Mountain States to be held in Ogden, Utah, Sept. 26 and 27.

Trust men from the states of Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming are to participate in the sessions. Special invitations have been sent to all bankers and trust men who will be on their way to the American Bankers Association Convention in San Francisco to stop over at Ogden en route.

Among the important topics on the convention program are: the development and operation of a trust department in smaller cities; property management from the company's standpoint; new methods of life insurance trust development; the investment of trust funds and the handling of trust business in a branch banking system.

The Next Step in Bank Taxation

(Continued from page 238)

munity if they cut out some paper that ought to be cut out, and so reported.

Income Went for Dividends

THERE were 4374 bank failures in this country in the eight years ending June 30 last year. Inexperience had been trying to meet the problems of deflation without sufficient capital and without enough surplus accumulated to serve as a buffer. In a large number of cases, that insufficiency of capital and surplus was due to excessive taxation and taxation of the wrong kind.

The state and the cities did not merely take a part of bank income, which anybody can afford. They taxed book value, and so discouraged the banks from accumulating capital and caused them to pay out all of their income in dividends. The taxation of banks has been a contributing cause in more than half the bank failures of recent years. The banks are going to have to change the system.

What are the states going to do for the additional revenue which I am sure they need? What seems to me to be the field is "intangible" property, which all the states will have to reach in some way, and some of the states are reaching it.

On the Economic Frontier

A VERY able financier of France a century or two ago said that taxation consisted of plucking the goose with the least squawk. That is a cynical comparison, but it is true, and we must change our present system, for we are getting too much squawk from two important classes, the owners of real estate and bankers. It is going to be necessary to reach the vast volume of intangible wealth that has grown up almost without our knowing it.

When some of the states were on the economic frontier a generation ago, the ad valorem system of taxation worked very well. All wealth was tangible then, but as time went on wealth grew up in other forms. The old mill was no longer a small water-power affair, but a great institution, capitalized at $1,000,000, most of the $1,000,000 supplied by people who had bought its stock and its bonds; and so there came to be a great many people who owned wealth that was intangible and was not reached. Bonds are easy to hide and will be hidden if the attempt is made to tax them. You simply cannot get a man to pay 2 per cent or 3 per cent tax on a 5 per cent or 6 per cent bond. Many of the states tried to get the property out of hiding by a low rate of taxation, two, three, four or five mills on the dollar. Pennsylvania began in the 70's to apply a four mill tax on that form of property. A man does not feel so bad if he has a 6 per cent bond and they tax him four mills on the dollar; that is less than half of one per cent and he still has 5.6 per cent income left. The results have been pretty good. Minnesota with a three mill tax put hundreds of millions of dollars of intangibles on the assessment books.

Had All Sorts of Trouble

THEN they ran against this conflict with the law of Congress. Of course the state can tax national banks (they being instruments of the Federal government) only in accordance with the permission of Congress. The law of Congress requires that if a state taxes a national bank it must not tax the shares any higher than it taxes the capital, bonds and mortgages, and that sort of property, that compete with national banks. Of course almost all banks, even national banks, make some mortgage loans now, and almost all of them have bonds among their investments.

Those interested made a test case of the matter and when it came before the Supreme Court of the United States the judges said: "The law means what it says. If you only tax bonds in your state half of one per cent, that is as high as you can tax the shares of the national banks." That law is the famous Section 5219 of the Revised Statutes. It is a protection to state banks, as of course no state will long tax its own banks much higher than it taxes its national banks.

We have had all sorts of trouble ever since that famous decision was handed down in 1921. The state tax commissions went to Congress about it. Congress amended the law in 1923 and in 1926 so that it is now possible for the states, that do not care to give bank shares such low rates, to tax the national banks on their income. I believe myself that three, four or five mills is not enough of a tax on national bank shares. The states can take the net income as a basis if they want to. Massachusetts did that at once. New York following in 1926 and Wisconsin in 1927. This year California, Washington and Oregon have all followed with income or excise taxation. It seems to be perfectly possible to obey the laws of Congress that bank shares shall not be taxed higher than competing moneyed capital, and still get adequate revenue out of the banks.

In a Minute and a Half

THE fear is often expressed that if a state is put on the income-tax basis, as to corporations in general, it would keep corporations out of the state. Perhaps it would; or perhaps a corporation that wanted to come into the state would be glad to know that in the first few years, while it was getting a footing in the state, if it did not make any money, at least it would not have to pay any taxes except on real estate. However, a state can put the banks on an income-tax basis without doing the same thing for other corporations. Massachusetts does it and the State of Washington has just provided for it.

Congress limits income or excise taxation only in this—a state must not tax the income of national banks more highly than it taxes the most highly taxed class of its own corporations in all ways. In Massachusetts they have a 2½ per cent income tax on corporations, but an excise tax on banks of about 5½ per cent. They tax corporations not only on their income, but local townships and counties tax them ad valorem too. The tax commissioner of Massachusetts gets the statistics each year and finds out the total income of Massachusetts corporations and the total taxes they have paid in all forms, income tax and everything else except real estate, and then in about a minute and a half he figures how much of the income of the Massachusetts corporations has been taken by taxation in all forms. If it works out to be 5½ per cent, that, for the coming year, is the rate of taxation on Massachusetts banks, state and national.

"A Hateful Tax"

AS I said in the beginning, the total taxes in this country are going to be more, not less, and that means that a tremendous change is coming in every state. We can no longer get the revenue that a modern community requires out of real estate and the banks, and that is about all we have been reaching so far. We must make a change in the taxing basis and we must make it by bringing into the purview of taxation the great mass of intangible wealth that has grown up since one after another the states have ceased to be on the economic frontier and have begun to develop capitalism. We must reach that capital, and we must reach it in such a way as to make a man willing to return it for taxation. We do not have to put an income tax on that intangible wealth unless we want to; we can tax it ad valorem at low rates. Then, in order to preserve the tax on national banks, and that means, practically, on the state banks, too, we must put the banks on some kind of income basis, either an income tax or an excise tax measured by income.

Samuel Johnson in his famous dictionary defined "excise" as: "A hateful tax levied upon commodities, and adjudged not by the common judges of property, but by wretches hired by those to whom excise is paid." We no longer farm out our taxes, and the excise is not like that now. Of course, an excise is not an income tax, although it can be measured by income. New York and Massachusetts and now California, Washington and Oregon, are determining the income from banks and other corporations for the purpose of measuring taxation. Under one name or the other, here is the next step in bank taxation.

Farm Aid on the Installment Plan

(Continued from page 234)

tities the farmer is able to secure the sheep at a greatly reduced cost compared with what he would have to pay should he endeavor to secure them himself.

Sheep in the last five years have been exceptionally profitable. Many farmers purchasing foundation flocks of yearling ewes from the corporation have made 100 per cent profit on their investment the first year. Some wonderful letters were received from those securing the sheep, a number stating that it was only through the income from the sheep that they were able to remain on the land. Others wrote that they did not have seed from their grain crops and were able from the sheep to buy their seed in addition to paying the installment on their note, and others stated that the grain crop would not pay the first mortgage loan interest, but the sheep not only took care of the installment due the corporation but also paid the interest due on the first mortgage loan on the land.

Better Dairy Cattle Needed

THE wool and the lambs are the only returns that can be measured in dollars and cents, but a farm flock is known among efficient farmers as the best farm "vacuum cleaner." The sheep's appetite for weeds, brush and screenings—feeds that other forms of livestock scorn—is well known.

An expert dairy cow buyer is also retained. The cows are purchased in the dairy sections of Wisconsin and Minnesota and shipped in carload lots, thus cutting down the overhead to a minimum.

The object of the corporation has also been to improve the quality of dairy stock by importation of high-grade stock from the dairy districts. With the introduction of pure-bred sires, improvement of breed has been increased. This improvement of the quality of dairy cattle is a crying need, for hundreds of farmers are today milking cows that do not produce enough to pay for their feed. Farmers are rapidly awakening to this condition and are appealing for assistance in getting better stock. In one instance a farmer was milking sixteen cows, which, upon test, proved to include twelve producing less than their keep. The corporation assisted this farmer to obtain eleven good grade cows from a good sire, which, upon test, produced an average of 249 pounds of butterfat the first year. In the first year the income from these cows paid the loan made for their purchase.

Acts as a Revolving Fund

THE success of any undertaking is measured by the ultimate results obtained. The success of any loaning enterprise must be gaged by two factors—first the prompt payment of loans and the percentage of losses; second, the permanent benefits obtained from the use of the money. The psychology of installment paying of indebtedness is well known to the American businessman. The remarkable part of the Agricultural Credit Corporation's program is the manner in which the loans have been repaid. This is particularly so when it is remembered that there are no local guarantors or collection agencies, but all payments are made direct to the home office.

The corporation has now operated for five years and a study of the figures shows that after the three-year cycle has been completed, the capital invested in livestock loans has acted as a revolving fund. It has been able to loan 9700 farmers $4,657,000, but at no time has it had much in excess of $2,000,000 on its books.

For instance, last year, $1,270,000 was loaned to 2794 farmers and $1,088,000 collected from loans of prior years. The records show that the farmers have been paying their sheep loans as fast or faster than their payments have become due. In 1926 payments received on the sheep loans outstanding overpaid by 34 per cent the total of the annual installment due. In 1927 there was 11.6 per cent overpayment and in 1928 the proportion was the same. The repayments on cattle loans also have been very satisfactory, but not quite as prompt as the sheep. On the sheep loans there are two pay days—the sale of the wool and the sale of the lambs; whereas on the dairy loans, inasmuch as a lien on the cream checks is not taken, the farmer is a little inclined to spend the proceeds for current operating expenses and depend on his grain crop for the payment of the installment when due.

Farming Can Be Made Profitable

THE losses have been running approximately one-half of one per cent of the total of the loans paid. These were due in some instances to poor credit risks and in other instances to adjustments being made because some of the animals did not turn out well. It must also be remembered that these loans are distributed widely over five states and no agent or representative is in close touch with them.

Therefore, it would seem that through the prompt payment and the small percentage of loss, as shown by the experience of the corporation, that long term installment plans for the purchase of livestock can be safely made and the income from the security will liquidate the indebtedness.

As to the permanent benefits obtained from these loans, the records of the corporation are graphic illustrations of the practical value of livestock in the farm routine. These records prove that the Northwest farmer who is a good manager needs only a fair chance to

show that farming can be made profitable year in and year out.

The Leaven of Prosperity

THE country banker in the states in which the corporation operates, although at first looking at it from a competitive standpoint, now realizes that it has been a boon to him and he is the most hearty cooperator. Many bankers advise that through the assistance of the corporation they have been able to greatly improve their farmers' paper, that notes they have been carrying for many years, listed as slow and doubtful, have been taken out of that class through procuring loans for these farmers for the purchase of small flocks of sheep and dairy cows. The banker found that the farmer was able to pay the annual installment due and in addition had money left over for other purposes and that at the expiration of the three years when the corporation was paid up, the livestock purchased and its increase, added to their former security, made the loan very desirable. This is not the experience of one, but of many bankers.

Now, just what kind of credit risk does the corporation consider? The answer is that farmers with clear real estate and personal property do not ask for assistance; that the majority of the applications comes from and loans are made to farmers who are in the struggling state; men who have the equipment and the feed and are good caretakers, but, because of their financial condition through indebtedness already incurred, are unable to obtain additional capital to increase their earning power. This is the farmer who really needs aid and in addition many farmers' sons and those who have stepped up from tenancy to ownership, start out with a limited amount of equipment and desire to establish themselves in diversified sources of farm income.

The farmer is able to purchase tractors and other farm machinery, automobiles, washing machines, pianos, radios, and what not, and pay for them in installments. If he can purchase these articles why should he not be given the opportunity to properly equip himself with good quality foundation livestock and pay for it over a series of years out of the income? At the expiration of the installments, he would still have his original purchase, no doubt worth very much more money, and in addition the yearly increase. Many farmers that have been assisted by the credit corporation with a few sheep and a few cows now advise that they have a fine dairy herd in addition to a good sized flock of sheep and have them paid for. This foundation is the leaven that will be the basis of their future prosperity.

There is a real need for a system of credit longer than now offered through the regular channels as a direct aid to farming to place it on a basis with other industries. Who is better able to furnish this credit and realize more from the indirect benefit through the farmer's increased buying power and prosperity than the business interests? What more sound and constructive work could be undertaken?

Experiments in Regional Forecasting

(*Continued from page* 237)

establish more than 2000 field agents for the purpose of getting local business forecasts. The expense of collecting information by this means soon became too great and the effort was abandoned.

More recently an experiment in regional forecasting has been made through the collection of information bearing on the future business trends of the territory surrounding certain major distribution centers. Most of the information used in making the predictions was compiled from information collected, but not always published, by the government, and by private agencies.

Farm Studies Fairly Simple

FOR the agricultural areas the method was fairly simple. At stated intervals the Department of Agriculture collects and assembles data on the number of acres of each of the major crops planted in each county in each state. Similar information is available for a number of years past. By means of a study of the price trends for each commodity in the year for which the prediction is made and a study of the actual farm income in the same section in past years, a reliable estimate was possible of the farm income for the coming season. Numerous other data were also found to be at hand to check such figures. The regional advisory boards of the car service division of the American Railway Association issue quarterly reports showing the estimates of cars needed for the shipment of freight of various classes from each of their several districts. This includes about 70 per cent of all freight, and the forecasts have been proved to be of unusual accuracy. Crop estimates and cotton ginning reports by counties are also available.

For industrial regions the problem of making local forecasts is considerably more complex. The types of each of its major industries must be considered with a study of their supplies of raw materials and their markets. The collection of such material involves a great deal of labor, but, fortunately, here again the Federal government collects sufficient data on details of production, stocks on hand and price trends to make possible reasonably accurate forecasts when these data are supplemented by the reports of trade associations and other private agencies. It is obvious that the conclusions must be drawn by trained economists who are able to interpret the general forecasts and records of past performance in the light of local informa-

tion and that attempts of amateurs might lead to highly misleading results.

Simplicity Imperative

EXPERIMENTS in regional forecasting were also made for typical manufacturing and distribution centers over a period of five years, and the results checked against the reports of the Federal reserve banks in the districts chosen and against the reports of local banks and other private reviewers of business conditions. The first checks resulted in several changes in method as inaccuracies were observed and new sources of information came to hand. So far the results have been sufficiently encouraging to warrant extending the surveys to cover all regions east of the Rocky Mountains. Within another year it is expected that a series of periodic forecasts can be made covering territories of each of the districts reported by the Federal reserve banks.

The experimental studies undertaken up to the present have been discussed and criticized by the bankers and leading merchants and manufacturers of the regions studied. In every case these men have emphasized the need of simplicity and clarity in the forecasts. Involved mathematical formulae are not understood by the average sales manager. In so far as possible, the conclusions as to the future course of business should be expressed in terms of comparison with preceding seasons and the reasons for the anticipated changes clearly expressed. Where the changes are anticipated in special industries these should be indicated so that other business in the same region not subject to the same conditions will not suffer from events that do not affect them. The discussions and criticisms have also indicated that where possible conditions affecting changes in local markets should be distinguished from those affecting remote markets and that conditions affecting retail, wholesale, manufacturing business and agriculture should be stated separately.

Pitfalls in Purchasing Power

ANOTHER pitfall to be avoided is that of attempting to make up any index of purchasing power. This has been tried on numerous occasions by nearly every forecasting agency. The time may come when statistics of sufficient accuracy will be collected to make this possible, but sales managers are more interested in the prediction of volume of sales than of purchasing power which may or may not result in the turning over of their stocks.

It is entirely probable that within a few years it will be possible for the regional forecaster to combine his forecasts with population and distribution studies that will result in an accuracy of forecast for business in any given district. But that time has not yet come. In the meantime if general regional forecasts can be made that will result in anything like the same degree of stabilization of local business that has followed the introduction of statistics and forecasts for the country as a whole, we may be well contented to await the gradual development of more detailed and scientific methods.

In view of the progress in recent months, it is safe to say that within a short time the bankers and merchants of the average city will have dependable predictions of business in their own communities, and executives of businesses operating on a national scale will know, within reasonable limits, the results to be expected in each of their distributing areas for the coming season.

Forces That Make for Prosperity

(*Continued from page* 242)

performs the ultimate service for which it was levied.

As a citizen of North Carolina, I believe that unless we can and will make definite improvement in the administration of our local governments, our local governments are, some of them, going to be on the rocks. If the local governments cannot themselves reform their business administration, the state must, for its own protection, step in and arbitrarily assume responsibility for so much of the administration as has heretofore been wholly within the province of the local government. And that there is a direct and immediate connection between this situation and the general business prosperity of the state requires only the statement to be admitted by reasonable men. Unscientific systems of taxation and inefficiency in government are so much dead weight to be carried by business in the strenuous race of modern-day competition, and to the extent to which they can be made scientific and efficient, to that extent will general prosperity be accelerated.

Overshadowing the Gold Point

(*Continued from page* 253)

munity $327,000,000 of purchasing power from any source whatsoever (foreign or domestic), and a goodly share of it will trickle out to foreigners. Or give foreigners prosperity; they cannot help shipping, something at least, to us.

Our war debt receipts in 1928 totaled $210,000,000, and the United States Treasury retired a corresponding amount of our public debt. Presumably the holders of the retired obligations reinvested a part in foreign securities—perhaps a very sizeable part. Some of the foreign taxpayers from whom these war debt payments came certainly bought somewhat fewer American cigars and automobiles because of their reduced purchasing power.

Caused Prosperity Sharing

THERE is no end to these illustrations. In 1928 our international turnover was about $22,000,000,000; and every single dollar of it tended to cause the counter-balancing movements called "detractions and promotions"—of this direct "prosperity-sharing" kind as well as of the indirect kind resulting from altered exchange rates. If only 3 per cent of the sums which we acquired from foreigners in 1928 were spent abroad, through prosperity-sharing, there was a group of balancing transactions aggregating $319,000,000. If the foreigners making these payments to us, under certain items, reduced by 3 per cent their other visible and invisible imports from us (detractions), these other balancing reductions aggregated $319,000,000.

The total "balancing efficiency" of these promotions and detractions, on our exports alone, is thus hypothetically estimated at $638,000,000; but that is just half of the story, for similar sets of influences were exerted also by our imports, visible and invisible. The total "balancing efficiency" of detractions and promotions on both exports and imports would be $1,276,000,000. The "balancing efficiency" of the year's record-breaking net gold outflow of $392,000,000 is puny in comparison—particularly as much of the gold moved "on a commodity basis," that is, was not shipped to balance international accounts.

The 3 per cent mentioned in the foregoing paragraph is, of course, highly arbitrary; 1 or 5 per cent might be closer. Checks drawn (debits to indi-

vidual accounts) in 1928 totaled $806,000,0000,000, of which—judging from the 1928 balance of payments—something like $25,000,000,000 must have pertained to international transactions; this might suggest a ratio of about 3 per cent. A higher ratio is suggested by the facts (1) that acquisitions of foreign exchange by individual Americans cannot be used, by our community as a whole, except for payments to foreigners and (2) that foreign acquisitions of dollar exchange had to be used here. Of all capital issues floated in the United States in 1928, about 16 per cent were foreign; but a more useful ratio, as regards capital operations, would be a smaller one—that of our net export of capital to our national savings.

Coincidence a Factor

WRITERS in this field seem never to have mentioned that a large part of the equilibrium in international payments can be ascribed to coincidence. Thus, in all years certain Americans want something foreign and certain foreigners want something American—want it spontaneously. The two lists of fundamental wants largely offset. It is only when the two lists promise not to offset closely that one needs to puzzle at all as to how the equilibrium will be established. Certainly any analysis of the equilibrium problem—or any description of the amazingly resilient mechanism of international payments—should not overlook this large factor of pure coincidence. One must not be too glib with this explanation, however, for what looks like coincidence might sometimes be the subtle results of "detractions and promotions."

A powerful deterrent to gold movements is the international bank deposit—a billionaire buffer. At the end of 1928 foreigners held $1,751,000,000 of deposits in New York banks; at London there must have been some comparable amount; at Paris, Berlin, Amsterdam and other centers — lesser amounts. These many billions of funds are less mobile than might be supposed; but at least, excess deposits acquired at one financial center are easily shunted to centers where deposits have been drawn down. Such movements usually result, of course, from "detractive and promotive influences," but they are potentially so important as to merit separate mention.

The Transfer Myth

TRANSFER "problems" can be described as the task of preventing the foreign transactions of a country becoming so "unfavorable" as to necessitate heavy gold exports and thereby compel it to suspend payments on its paper currency. It is no digression at this point to minimize the seriousness of all such "problems."

The subject is now brought up just to prove that the two types of balancing transactions, discussed above, must be of immense volume. If they are not immense in volume, how else to account for there being mighty fluctuations in a nation's balance of payments (i.e., mighty "transfer problems") without mighty movements of gold?

The writer believes that, with a very few strokes of the brush, transfer problems can be daubed out of the picture almost entirely:

1. Since the war, when pleasure tours to foreign countries were practically suspended, the United States has learned how to "transfer" about $800,000,000 annually for tourist expenditures. It has been a period of gold inflow, our net gold imports having totaled about $900,000,000.

2. In 1922 our favorable balance of trade was $1,257,000,000 less than in 1921; yet in 1922 we transferred some $820,000,000 for

tourist expenditures, immigrant remittances, and charities—or about the same as in 1921. In 1922 our net gold import was $238,000,000.

3. In 1924 the nation underwrote $728,000,000 more of foreign securities than in 1923 and transferred the proceeds without realizing that any problem was involved. In 1924 our net gold import was $258,000,000.

4. In the second half of 1928 our favorable balance of trade increased (over the first half) by $452,000,000 and our underwriting of foreign securities declined by some $610,000,000. Thus, in a single half-year, these two items thrust a $1,000,000,000 transfer problem upon the outside world. Our net gold export in that half-year was $9,000,000.

5. There is little need to discuss the alleged problem of transferring German reparations. Nearly half of the "standard annuity" of $595,000,000 (still being paid) is in kind and hence involves no transfer problem. The small balance is worth considering here only because Germany's international turnover is apparently smaller than ours. Suffice it to observe that Germany's net import of gold in 1928 was over $200,000,000.

THE reader can explain the foregoing five financial miracles to suit himself. He can rid them of their mystery by calling them coincidences, or he can presume that the natural laws herein explained are of terrific efficiency.

The question is now raised, in good faith, whether in all history any nation, firmly on the gold standard, has been forced onto a paper basis solely by its international transactions. We know that during the war what ruined most of the currency systems was the inflating of banknote circulations for domestic expenditures.

Incidentally it is not enlightening to say that the modern world is on a gold-exchange standard simply because international gold shipments do not amount to much. As balancing influences they never did amount to much; witness our prewar gold shipments. In comparison with the colossal sums which these other balancing factors must involve, international gold shipments on a "straight-exchange basis" are literally small change.

Convention Calendar

DATE	STATE ASSOCIATIONS	PLACE
Sept. ——	Delaware	——
Sept. 11-12	Indiana	Evansville
Sept. 20-21	Nevada	Reno
Nov. 6-7	Nebraska	Omaha
Nov. 8-9	Arizona	Phoenix

DATE	OTHER ASSOCIATIONS	PLACE
Sept. 24-26	National Association of Supervisors of State Banks	San Francisco, Cal.
Sept. 25-27	Pacific and Rocky Mountain Regional Trust Conference, Trust Company Division, A. B. A. and Trust Company Section Utah Bankers Association	Ogden, Utah
Sept. 30-Oct. 3	American Bankers Assn.	San Francisco, Cal.
Oct. 7-11	International Thrift Congress.	London, England
Oct. 29-31	Mortgage Bankers Assn. of America.	New Orleans
Oct. 30-Nov. 2	Financial Advertisers' Assn.	Atlanta, Ga.
Nov. 7-8	Fifth Mid-Continent Trust Conference, A. B. A.	Detroit, Mich.

Condition of Business

(Continued from page 260)

New York Broakerage Loans

For own account.....	992*	1,516	809
For out-of-town banks	1,756*	1,648	1,513
For "others"........	3,468*	2,166	1,880
Total	6,217*	5,330	4,201

Reporting Member Banks and Loans by "Others" Combined

Secured loans—banks.	7,513	7,807	6,745
Brokerage loans—"others"	3,468*	2,166	1,880
Total	10,981	9,973	8,625

*Aug. 28.

An examination of the above figures shows that during the year the secured loans held by member banks increased $768,000,000 and the commercial loans also increased, by $421,000,000, while investments were disposed of to the extent of $442,000,000. During this time total deposits of reporting member banks increased by only $86,000,000. It will be seen, however, that loans made direct by others than banks increased by $1,588,000 during the year.

There Is a Real Question

BANKERS have no quarrel with corporations who feel that it is to their best interest to lend their surplus funds direct, instead of keeping them in the banks and allowing the latter to lend them at a higher rate of interest. There is a real question, however, whether it is to the advantage of corporations to do this over an extended period of time. It has resulted in building up this item of direct loans that is more than three times as large as the national debt of the United States before our entrance into the war. So long as nothing happens to seriously shake confidence, these loans will be left undisturbed and will be profitable, but in the event of any movement to withdraw these funds a major stringency would develop. From the above figures it can be observed how this happened in a very mild way at the year-end, when the outside money was temporarily withdrawn and the New York banks had to take over the loans.

It would also seem advisable, from the standpoint of the individual investor who is carrying a large line of stocks to shift a share of his loans to banks, rather than force the broker to borrow such a large amount from banks and any other sources available. This would mean that the investor's equity or margin, which for many persons probably represents a major portion of their personal fortunes, would be in the hands of banks, which are supervised by the Comptroller of the Currency and the banking superintendents of the various states, are subject to regular examination by these governmental authorities and are required to publish statements of their condition periodically, instead of with private houses, whose standing and responsibility there is no reason to question, but which nevertheless do not make a practice of publishing the statements of their condition and are not subject to supervision and examination by governmental authorities but

only by the exchange of which they are a member.

Stocks Active, Bonds Dull

PUBLIC utility, steel and railroad stocks have led the activity in the securities markets, followed by miscellaneous industrials that have been involved in mergers, either actual or rumored. Excellent earnings, as summarized earlier in this review, have proven to justify the large enhancement in prices enjoyed by numerous stocks this year, and these earnings have a beneficial effect throughout business and even in government finances, where unexpectedly heavy tax receipts from corporations and individuals have allowed the Treasury to continue its program of debt retirement in spite of the steadily increasing aggregate of government expenditure and the special appropriations such as farm relief. All stocks have not gone up, however, and the past year has witnessed a discriminating market in which the marked gains were in such premier securities as United States Steel, Bethlehem, General Electric, Westinghouse, Allied Chemical, du Pont, Eastman Kodak, American Telephone, International Telephone, American Foreign Power, and the like.

On a representative group of industrial stocks the dividend yield now averages 3.16 per cent, while on the railroad group it is 3.98 and on the public utilities only 1.75 per cent. If one will comb through the listed stocks and pick out all issues selling at better than 10 times earnings (not dividends), which used to be the standard, he will find very few, and these can be accounted for in practically every instance by the presence of some unfavorable factor, except in mining and oil stocks which usually report their earnings before depletion charges.

Bond prices are still depressed by the tightness in the money market and trading is dull, except in some of the convertible issues or those with warrants attached. Much of the money that formerly went into bonds directly or through savings banks is now going into investment trusts, which have had such a spectacular growth in the last two years. So much has been preached recently about the advantage of "equity" issues that one might think the popularity of fixed term investments would never return. Some of the claims of the security trading companies are pure nonsense, at least for that class of people which is dependent on the income from moderate sized estates, etc., and the careful investor will go slowly on exchanging seasoned securities for shares in so-called investment trusts that are little more than "blind pools," and whose organizers have contributed only a minor share of the investment but stand to receive a major share of the profits.

New Books

BANK ADMINISTRATION. By H. Stronck. Published by Rand, McNally and Company, New York. 230 pages.

A discussion of the new problems confronting bank administration, especially the higher type of management necessary for the institutions which, owing largely to consolidations, have grown to a size not heretofore known in this country. The principles of bank management described are illustrated by charts.

MERGERS IN INDUSTRY. Published by the National Industrial Conference Board, Inc., New York. 205 pages. Price $3.00.

The book undertakes an examination of some of the important questions that have been raised as a result of fifty years of industrial integration under changing policies. The efficiency of mergers from the standpoint of profits is studied along with the trend of industrial consolidation.

THE FINANCIAL HISTORY OF BALTIMORE, 1900-1926. By Leonard Owens Rea, Ph.D., Professor of Business Administration, Catawba College. Published by the Johns Hopkins Press, Baltimore, Md. 127 pages. Price $1.25.

This study brings up to date the financial history of Baltimore together with an account of the administration, expenditures, revenues and indebtedness of the municipality.

FINANCIAL HANDBOOK OF THE AMERICAN AVIATION INDUSTRY. Compiled and Published by the Commercial National Bank and Trust Company of New York. 156 pages.

The bank presents data collected as part of its own working information regarding the corporate structure, financial arrangements, property holdings, production facilities, operations and personnel of the companies engaged in all branches of the aviation industry.

CAPITAL, THE MONEY MARKET AND GOLD. By Lionel D. Edie, Professor of Finance, School of Commerce and Administration, University of Chicago. Published by the University of Chicago Press, Chicago. 53 pages. Price $0.50.

A brochure throwing a broad light on the chief financial problems of the day. It is in the nature of a short course in the new factors which have come to play about money and credit.

EUROPEAN FINANCIAL CONTROL IN THE OTTOMAN EMPIRE. By Donald C. Blaisdell, Ph. D. Instructor in government in Columbia University. Published by Columbia University Press. 238 pages. Price $3.00.

A study of the establishment, activities

and significance of the administration of the Ottoman public debt which interprets European interests in the Empire from the standpoint of economic control.

INDUSTRIAL BALANCE SHEETS. By Myron M. Strain, B. C. S. Published by Harper and Brothers, New York. 182 pages. Price $3.50.

A study in business analysis that undertakes to answer the problem of how to apply the accepted principles so as to be able to infer from industrial balance sheets the probable soundness and paying ability of the organizations whose condition they reflect.

THE NEW PLACE OF THE STOCKHOLDER. By John H. Sears. Published by Harper and Brothers, New York. 254 pages. Price $4.00.

Written for the general reader without primary emphasis upon the legal phase of the ownership of corporate securities the book considers the rights and responsibilities of the stockholder from the standpoint of purely economic considerations, matters of convenience, something of practical philosophy and of business common sense.

INTERNATIONAL AIRPORTS. By Stedman S. Hanks, Lt.-Col. Air Corps Reserve. Published by the Ronald Press Company, New York. 189 pages. Price $5.00.

A consideration of the problems of American airport development from a study of what has been done abroad against the background of the author's knowledge of conditions in this country.

INDIA IN 1927-28. By J. Coatman, Director of Public Information, Government of India. Published by the British Library of Information, New York. 432 pages. Price $1.50.

A statement prepared for the British Parliament reviewing one of the most interesting years in the history of India. The book is in the nature of an official study of modern India.

APPLIED BUSINESS FINANCE. By Edmond E. Lincoln. Published by McGraw-Hill Book Company, New York. 779 pages. Price $5.00.

In this, the fourth edition the work has been revised and enlarged and to some extent completely rewritten. The aim of the book is to discuss those problems of business finance which actually arise from day to day in the average industrial concern, including both manufacturing and trading enterprises. No attempt is made to center attention on the problems of very large organizations as such, and only incidental mention is made of the financial problems of public utility concerns and holding companies. Little attention is given the abnormal or spectacular and more public phases of financing. In bringing the work up to date in its latest edition an attempt has been made to give proper weight to all important developments in finance which have taken place within the past few years.

INDEX TO ADVERTISERS

WHAT DO YOU THINK?

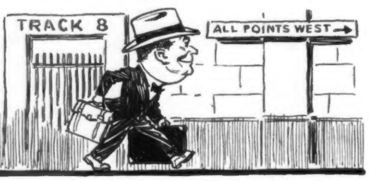
Being a more or less personal talk between the EDITOR *and the* READER

A Great Migration

SOON after this issue of the JOURNAL is in your hands a great migration of bankers will have begun. From all over the United States bankers will be making their way to San Francisco for the Fifty-fifth Annual Convention of the American Bankers Association.

There they will receive the inspiration of banking for the coming year. So swiftly moves the course of modern banking, so replete is it with changes, that each year sees new and complex problems confronting the profession that give to each Convention a task that seems to stand out in importance above all the others that have gone before. Yet each year the record of progress made finds the bankers of the country ready to take the things the last twelve months have brought forth.

This ability of banking to take things as they come and not only to make the most of them but to get the most out of them for the further strengthening of the financial structure has inculcated into national thought an unshaken confidence that banking will always meet the test. The eyes of the whole country will be on San Francisco from September 30 to October 3.



Those who attend the Convention will take part in the shaping of banking policies for the coming year. Those who remain at home will have the full report of the proceedings brought to them through the columns of the JOURNAL. The October number of the JOURNAL will report the San Francisco Convention. In some sections of the country it will reach the bankers practically as soon as returning delegates.

A Solid Front

AN interesting account of how Georgia bankers, by presenting a solid front, prevented the imposing of restrictions upon the expansion of "the trust idea" by banks and trust companies in that state has been written the JOURNAL by H. F. Pelham, vice-president of the Citizens and Southern National Bank of Atlanta.

At the term of the Georgia Legislature which closed in August a Lawyers Bill was proposed to define the practice of law in the state as affecting corporations and aimed originally at certain alleged practices on the part of title companies and to prohibit certain acts on the part of corporations, principally title companies, banks and trust companies.

"The bill introduced," reports Mr. Pelham, "was rather rambling and vague and if enacted would have precluded many of the ordinary every-day practices of banks and was aimed not only to prohibit the practicing or appearance in court as an attorney of any person other than itself, but also the giving of advice and the discussions on and the drawing of papers in relation to 'anything creating a legal right.' Apparently radically sponsored, the bill passed the House of Representatives in the state by a vote of 120 to 30 after a strengthening amendment had been made on behalf of the proponents.

"The state banks as well as the banks in Atlanta drew the issue suarqely on the bill as it had passed the House, it being reported that no reasonable amendment would be accepted either by the House or Senate committees. The concerted effort on the part of the banks throughout the state at large resulted in making the issue such that it was apparent that few of the Senators desired to be recorded as favoring either side of the bill.

"The bill, after a half day's argument and the placing of several floor amendments which virtually destroyed it, was by unanimous consent 'indefinitely postponed.'

"The terms of the bill were aimed to break down the contact between the banks and the prospects and customers of the trust department, as well as to break down the retainer relationship between the banks and their counsel, it apparently being thought by the proponents of the bill that a great volume of legal business would thus be liberated in the general field of the Bar.

"Prior to the meeting of the Legislature, the Georgia bankers had already started a movement to work out a Code of Ethics with members of the Bar looking to a common understanding in the matters wherein the interest of the banking and legal professions touched.

"The banks in Georgia, disregarding this interruption, are proceeding to work out such an arrangement to be submitted to the members of the Bar."

A Real Truth

AN editorial in the August issue struck a responsive chord and called for a letter of appreciation from Stanley Klonowski, president of the Bank of Cleveland, Cleveland, Ohio. He said:

"In your August issue, in the editorials, you had a great article, 'The Loyalty-Lacking Directors.' We feel very grateful to you for the article; it was to the point and expressed a real truth."

Fascinated Him

"I AM a teacher of social studies in the San Francisco school department," writes H. S. Davis. "Yesterday I was looking through your magazines at the University of California, where I am doing research work. The JOURNAL cover illustrations fascinated me almost more than what I was looking for. They illustrate so clearly certain principles I develop in my teaching. Would it be possible to get the covers from back numbers?"

They Sold Themselves

"I HAVE asked a trust man to come up to our main office and tell a few of us something about making wills and life insurance trusts and a lot of other things I do not know very much about," said E. D. Dunton, manager of the Loomis Branch of the California Trust and Savings Bank of Sacramento, California, to one of his customers recently. "If you are interested in this subject at all, I would be glad to have you come and join us."

In this manner a plan for letting trust prospects sell themselves was put into operation. How it worked is described by W. S. Guilford, of the trust department of the California National Bank, Sacramento:

Twelve men—representative business men and ranchers of this community—sat down around the table in the directors' room of the Loomis Branch at 7:15 one evening. The party broke up at 11:00 o'clock.

As a guide for the discussion of trust department activities, each one present was given a copy of an elementary book on trust functions.

The representative of the trust department called attention to various things mentioned in the chapters of the book and as the evening progressed there was a general discussion of wills, life insurance trusts, partnership trusts, deeds of gift, guardianship affairs and all of the other things that trust departments deal with.

There was no solicitation on the part of the trust representative or on the part of Mr. Dunton for trust business at this meeting. It was simply a very informal, friendly discussion of the work of a department in the bank that none of them had had occasion to investigate or to know very much about.

Needless to say, the time passed so rapidly that 11:00 came before anyone realized it. As a result of this meeting several of those present have made wills and life insurance trusts and this business has come voluntarily to the trust department. Everyone who attended the meeting will eventually get their affairs in shape and will name the bank executor and trustee.

And in addition to that, these twelve men are the greatest advertisement the bank as a whole, and the trust department in particular, could possibly have in this section.

Each one of them now feels he is more or less an authority on trust matters and he has taken it upon himself to advise all his close friends and neighbors that it is their imperative duty to get their affairs in shape.